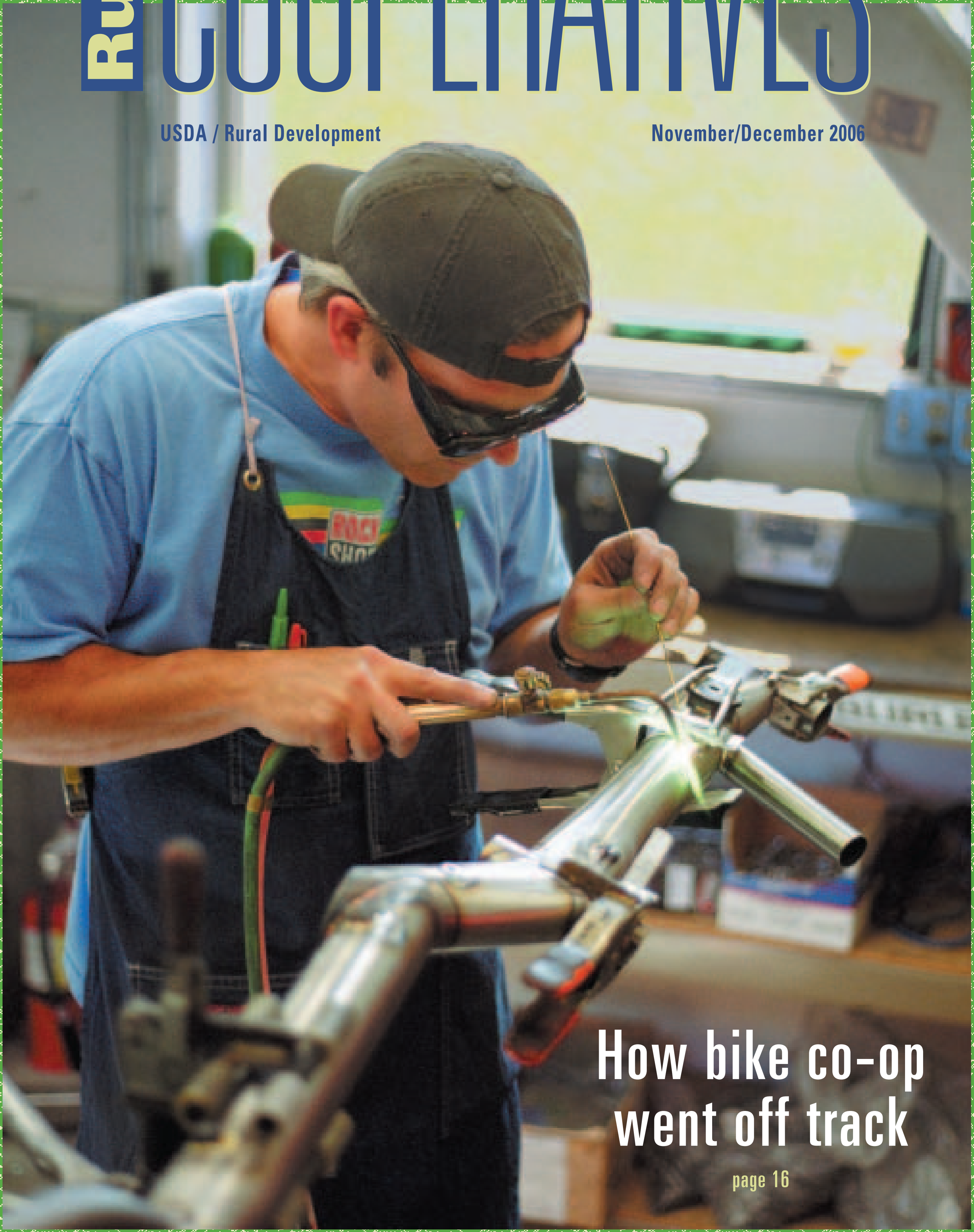
Rural COOPERATIVES

USDA / Rural Development

November/December 2006



How bike co-op went off track

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C O M M E N T A R Y

Thomas Dorr at the opening of a biodiesel plant in Delaware. USDA photo by Kathy Beisner

New Energy Sources: Big Deal for Rural America

Renewable energy is the oldest new idea to come along in a long, long time. The dream of harnessing the power of the wind and the energy of the sun is as old as mankind. A hundred years ago, Rudolf Diesel was running engines on peanut oil. About 80 years ago, Henry Ford predicted that ethanol was the fuel of the future.

For many years, cheap and abundant fossil fuels priced these and most other alternatives off the market. Today, however, the potential of renewable energy is finally ready to be harvested.

On Oct. 12 in St. Louis, Mo., I had the privilege of listening as President Bush addressed 1,500 leaders from agriculture, the renewable energy, automobile and oil industries, the railroads, state and local governments and investment bankers on the urgency of diversifying America's energy supply (see page 8).

The occasion was the "Advancing Renewable Energy: An American Rural Renaissance" conference. Sponsored jointly by USDA and the Department of Energy, the conference marked a new era. The old phrase "alternative energy" needs to be retired. Why? Consider this:

- Ethanol production is at 5 billion gallons per year and rising fast;
- More than 10,000 megawatts of wind energy is being generated;
- The biodiesel-production curve is headed almost straight up, from 2 million gallons in 2000 to a projected 254 million gallons in 2006.

Yesterday's niche "alternatives" are going mainstream.

Across the spectrum — ethanol, biodiesel, wind, solar and cellulosic ethanol — technological advances are reducing costs and improving production efficiencies. While fossil fuels will continue to provide the bulk of the nation's fuel supply for decades to come, the outlines of a new energy economy are taking shape. For rural America, this is a historic opportunity.

It's not always possible to put a price tag on opportunity, but this time we can. Americans this year will spend more on imported oil than on every ear of corn, bushel of wheat, bale of hay, cow, hog, tomato, apple and orange *combined*. USDA currently projects the total value of U.S. agricultural production in 2006 at $273 billion, while U.S. oil imports for the year will exceed $300 billion.

If we can replace 1 billion barrels — about 20 percent of total oil imports — with biofuels, that is a new market for America's farmers greater than this year's projected net farm income of $54 billion. Wind and solar power add even more potential.

USDA is committed to helping rural America realize this potential. Since 2001, USDA Rural Development has invested in excess of $482 million in more than 1,000 ethanol, biodiesel, wind, solar, geothermal and other energy and energy-efficiency projects. USDA as a whole has committed more than $1.7 billion to renewable energy, bio-based products and energy-efficiency investments.

The best news is that private investment is soaring, markets are taking over and the renewable fuels industry is beginning to move under its own power. America is blessed with abundant energy resources. Once the price is right, these will find their way to the market. That is beginning to happen now.

The transition to a new energy economy will take decades. But as President Bush has said on many occasions, America *can* beat its addiction to imported oil. We have, in fact, made more progress on renewable energy in the last six years than in the previous 30.

That's no accident. It directly reflects the incentives provided in the 2002 Farm Bill and the Energy Policy Act of 2005, as well as the continuing commitment outlined in the President's Advanced Energy Initiative announced early this year.

This is important for our national security. It's good for the economy and the environment. For rural America, it is the greatest opportunity for new markets, new investment, new jobs and wealth creation in our lifetimes.

It is exciting to be a part of it, and at USDA Rural Development we look forward to working with you to turn renewable energy into economic opportunity and an improved quality of life in rural communities across America.

— Thomas Dorr,
USDA Under Secretary for Rural Development ■

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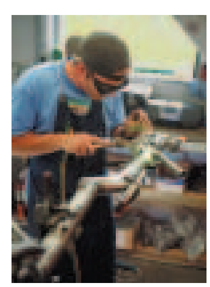

Workers didn't just produce bicycles and accessories at the Burley Design Cooperative in Oregon, they also owned it until late last summer. A number of problems led to its demise and recent sale. *See page 16.*
USDA photo by Stephen Thompson

Dairy Dilemma

Ban on rBGH use by Tillamook sparks conflict

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Editor's note: The author welcomes feedback from readers on this article and the general topic of the countervailing power of cooperatives in the market place. Their thoughts may be used in future articles, and can be e-mailed to: Thomas.Gray@usda.gov. Citations of reference material are listed by author name and title of article, as available on the Internet. Later references to the same work give only the author's name and year of publication. Readers may find a more extensive version of this article in the forthcoming Cooperative Accountant, Winter 2007.

When Tillamook County Creamery Association voted in 2004 to ban use of synthetic bovine growth hormone (rBGH) by its producer-members, it triggered a conflict within its membership and with Monsanto Corp., the sole manufacturer of the hormone. The often-heated dispute lasted about 18 months, from May 2004 until February 2005, during which time the co-op vigorously resisted efforts by Monsanto and pro-rBGH members to convince it to reverse course and allow members to use the growth hormone.

Tillamook, based in Tillamook County, Ore., is a relatively small dairy cooperative of 147 dairy farmer-members, with an established worldwide reputation for excellence for a wide variety of dairy foods. It is especially renowned for its cheddar cheeses. Total sales in 2004 were $260 million.

Monsanto is a multinational corporation, headquartered in St. Louis, Mo., with offices in nearly 50 countries. It produces a wide number of chemical and agriculture-related products. It had sales of $6.3 billion in 2005. (Hoovers On-line, September 2005)

The conflict is, in part, a result of differences in organizational philosophies, structure and power between different types of economic organizations.

In this case, the conflict is between a farmer-owned cooperative and a multinational, investor-driven corporation. This article suggests how these differences in corporate philosophy and goals may have influenced the conflict, and comments on the continuing relevance of cooperatives in furthering democratic business processes in civil society.

Synthetic rBGH: pros and cons

The FDA approved the use of synthetic growth hormone, rBGH (recombinant bovine growth hormone) also referred to as rBST (recombinant bovine somatotropin) in 1994. It is a genetically engineered growth hormone that can stimulate cows to give more milk. Advocates suggest it can increase milk yields by 10–25 percent via injections every 14 days. (Alex Pulaski, *Hormone Fuels a Fight in Tillamook*, 2005) In an era of high feed and fertilizer costs, with relatively low milk prices, many farmers have been tempted to draw upon the production-increasing abilities of rBGH.

Customer market research had clearly indicated that consumers were concerned and wanted a change.

John Fetrow (*Economics of Recombinant Bovine Somatotropin, 1999*) has estimated that in adequately managed dairy herds, farmers can earn at least a 50-percent profit over the expenses of using the product, given typical prices for milk and feed. "By increasing production in existing cows, the technology spreads fixed costs over more production, increasing the margin and profits for the farm."

It is estimated Monsanto, along with Upjohn, Eli Lilly and American Cyanamid spent as much as $1 billion in research and development of rBGH. Monsanto Corporation, currently the sole producer, sells rBGH under the brand-name Posilac. Bank One Securities estimates that Monsanto earns upwards of $270 million a year on rBGH sales. (Vince Patton 2005, *Tillamook Bans Artificial Growth Hormone.*)

In June 1997, the Tillamook board approved member use of the product. In April of 2003 and in 2004 the board held strategic planning discussions on rBGH use. In May 2004, it voted to require producers to phase out its use in order for members to be rBGH-free by April 1, 2005. The May 2004 vote was, in-part, a response to consumer complaints concerning its safety. The vote was especially triggered by consumer concerns about possible antibiotic residues left in milk after cows had been treated for rBGH-related infections.

In the intervening period, from prior to June 1997 to May 2004, there were numerous press reports concerning the safety of rBGH, ranging from concerns about animal welfare (mastitis and hoof splitting), consumer health (cancer risks and antibiotic traces in milk), the natural environment (disposal of used syringes), to its socio-economic impacts (producing more milk for an already glutted milk market). (1997 TED Studies, *Bovine Growth Hormone and Dairy Trade*)

Furthermore, Barham, Jackson-Smith and Moon (University of Wisconsin, 2000) argue that use of rBGH has not been nearly as profitable for farmers as first promised, and adoption rates have been much lower than anticipated.

Advocates have countered that no research has confirmed higher cancer rates. Mastitis has been found to occur at higher rates. However, "appropriate" management of a herd can minimize these problems, thereby eliminating antibiotic milk residues. Fetrow (1999) has argued the environmental risks may actually decline, since similar volumes of milk can be produced with fewer cows, reducing manure and methane levels.

Tillamook Country Creamery has established an international reputation for dairy products such as these. Protecting its brand and reputation led the board to ban use of rBGH. Facing page: a co-op member's farm in scenic northwest Oregon. Photos courtesy Tillamook

Consumer concerns lead to ban; Monsanto reacts

Tillamook cheese sales are, in part, driven by a highly visible brand name, and a well-known reputation for producing a quality product. Most Tillamook cheeses have won national and international awards.

James McMullen, CEO of Tillamook, says the ban on rBGH was primarily driven both by direct complaints to the company and by consumer market research. "In 2002…3 percent of phone calls and e-mails received by the association were related to bovine growth hormones. That number rose to 4 percent the next year, and hit 8 percent by 2004." (Pulaski)

Steve Neahring, a board member during the period when rBGH was being contested, said protecting the brand was the primary objective. "The most valuable asset the creamery owns is that brand."

Mark Wustenberg, vice president of member relations at Tillamook, said letters and e-mails were important in making the decision, but that customer market research had clearly indicated that consumers were concerned and wanted a change.

Tillamook has also taken several actions to protect the environment in ecology-conscious Oregon. Such measures have included: 1) fencing 91 miles of stream-banks to protect riparian areas from dairy cow damage; 2) creating more than 1,000 alternate water facilities for cattle; 3) planting over 400,000 trees along local rivers and streams; 4) encouraging use of manures as an alternative to commercial fertilizer; 5) building manure storage facilities and 6) working with local and state governments on various other environmental enhancement projects. (Tillamook County Creamery Association website, 2006)

As reported by Pulaski (2005), "Fearing consumer questions concerning the quality of the brand contributed to banning the product." Farmer-members need cooperative sales to stay in business. They need to be able to use the cooperative to process their milk and market their farm products. Their elected board, after two years of careful deliberation — acting in its role as strategic planner for the organization — voted to ban use of rBGH.

Monsanto reacted to Tillamook's ban with a letter to their rBGH customers in the area. It said that restricting the hormone's use, "seems ill advised because it would cut into dairy farmer…choices, particularly their profits." The letter said Monsanto would work to ensure farmers have continuing choices in how they run their dairies. To do so, it may be necessary for a Monsanto representative to call on them and seek their advice."

Conflict in structure and goals

Structured as an investment firm, Monsanto obviously needs sales to maximize returns on investment for its stockholders. Management is evaluated on its ability to do so. Tillamook, the cooperative, needs sales to guarantee a market for the milk production of its member-users.

Co-op management performance is similarly measured based on its ability to successfully market its members' products. Monsanto's need for rBGH sales came into direct conflict with Tillamook's concerns over providing a continuing outlet for its members' milk. The co-op's ability to market is closely tied to brand quality, consumer interests and environmental image and actions.

In January 2005, the cooperative

Protection for dissenting voices

Voting power in Tillamook is on a one-member, one-vote basis. This provision creates a more horizontal business organization in that — regardless of the amount of milk any individual member sends or how much cooperative equity is owned — each member has only one vote. This reduces tendencies within the cooperative for voting power to concentrate with any single member or group of members.

Members who dislike cooperative policies may dissent in various ways, among them:

- Voicing their dissent to their elected representatives at member meetings (as well as during interim periods);
- Electing different cooperative decision-makers, i.e., boards of directors and other elected officials;
- Seeking and running for a cooperative office themselves;
- Choosing to leave (or threaten to leave) the cooperative and marketing their milk elsewhere, although this option can be limited by actual marketing alternatives. In the Tillamook case, members have several choices in the larger Willamette Valley of Oregon to market their milk, including other cooperatives;
- Writing letters, filing petitions, talking to the press, hiring attorneys and seeking assistance from competitive organizations if they so desire. Ideally, however, members will remain loyal to the co-op as long as they have sufficient opportunities within the organization to voice their opinions. For the most part, this has been the case. Chandra Allen, spokesperson for Tillamook, reports that while the rBGH vote of a year ago was contentious, there has been no change in the membership. Members neither joined nor left due to the vote. ■

received a petition from 80 members asking that the board reconsider the ban. The Tillamook board did reconsider, and on Jan. 31, 2005, announced it would uphold the restriction.

Eight days later, a letter was hand-delivered to the Tillamook corporate offices by a District of Columbia-based attorney. The letter called for a general vote by all cooperative members to consider a change in its bylaws. The proposed change was written so that it would mandate that "the Board shall...not in any way restrict the right of any member to use any pharmaceutical product approved by the …[FDA] …for use in dairy cattle." The petitioning letter had been signed by 16 Tillamook members, and had the effect of precipitating an overall member vote on Feb. 28, 2005.

Tillamook charged that Monsanto was meddling in the internal affairs of the organization. Monsanto responded that it had not instigated the vote, nor had it provided legal assistance to the Tillamook members seeking the vote.

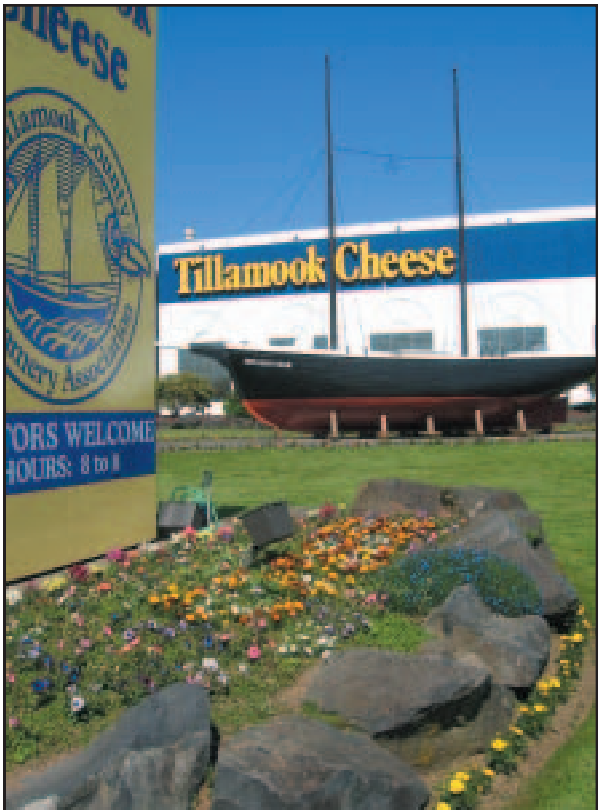
Individual vs. collective rights

Tillamook members who opposed the ban saw the issue as one both of economics and individual rights. They also questioned reports of ill effects on human health and animal welfare. Bob Northrop, a cooperative member, said he "stands to lose thousands of dollars in income because [his] cows will produce less milk…and [argued] that the hormone has no ill effects on humans or cattle."

Jim Wilson opposed the ban based on individual rights concerns, asking whether there would be further restrictions on products farmers were allowed to use. "What's the next thing we won't be able to use?"

Carol Leuthold, another member, argued for the "democratic voice" issue: "We want the freedom to dairy the way we feel is best." This sentiment was echoed in the comment: "This is about members of the co-op having a voice and [our] voice is not being heard." (As reported by Pulaski, 2005.)

Monsanto took a position consistent with the Tillamook members who opposed the ban. It was a matter of free choice, economics and business sense as well as health. "Monsanto director of public affairs, Jennifer Garrett, emphasized the findings of the Food and Drug Administration that there is no impact on human health and that milk is exactly the same form as [that from] natural cows and cows on Posilac." (Patton, 2005, *Tillamook Creamery bans use of artificial growth hormones*)



Tillamook's visitor center provides tourists a view of its cheese-making operation. USDA photo by Dan Campbell

While FDA studies in the United States did draw such conclusions, supporters of rBGH restrictions countered that countries such as Canada, Australia, New Zealand, Japan and the EU have banned its use. These countries have taken such action based on concerns about animal health and "unanswered questions about human impacts." (Patton, 2005)

Those against its use also point to faults and conflicts of interest in the hormone approval process at the FDA itself. These charges were investigated, however, and found to be without merit by the General Accounting Office.

Ban upheld

Between Feb. 8 and Feb. 28, 2005, more than 6,500 consumers contacted the cooperative to comment on the vote. Nearly 98 percent requested that Tillamook go rBGH-free. Member sentiments were similar on voting day, though not with such overwhelming percentages. The vote was 87-43 in favor of retaining the ban.

In response to the vote, a Monsanto spokesperson said: "We are pleased that the producer owners of Tillamook had the opportunity to decide this for themselves and respect the choices of the majority of the producer owners…For individual producers, it is unfortunate that their choice to use a product that could have provided a significant economic benefit to many Tillamook family farms had been limited…We hope that in time Tillamook producers will reconsider this policy." (Pulaski 2005)

Christie Lincoln, then a spokesperson for Tillamook, said: "We are a consumer-driven company and we're keeping consumers in mind. I think this is a confirmation that our members believe in us." (William McCall, 2005, *Dairy Co-op Rejects Monsanto Proposal to Reject Hormone Ban, The Oregonian*)

Collective interests

In joining a cooperative, members give up some individual rights (in this case, concerning a milk-production practice) in exchange for greater collective market presence and all the advantages that brings. Individual members delegate certain decision-making rights to their elected board of directors to make strategic planning (and opera-

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Promise of renewable energy focus of St. Louis conference

By Stephen Thompson, Assistant Editor
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Editor's note: For more conference highlights, including the complete text of many of the major speeches, visit: www.rurdev.usda.gov/rd/energy/#are.

Corn ethanol and biodiesel may dominate the renewable energy arena now, but new technologies may expand and change the picture dramatically in coming years. Cellulosic ethanol may hold the greatest potential of all for the nation's energy future, and wind, solar, methane and hydrogen will also likely play a role in helping the nation move toward energy independence. These were among prime messages participants took home from "Advancing Renewable Energy: An American Rural Renaissance," a conference in St. Louis, Mo., Oct. 10–12, sponsored by the U.S. Departments of Agriculture and Energy.

The event attracted about 1,500 participants, who heard from probably the greatest gathering ever of high-ranking government and industry leaders and researchers for the purpose of addressing the state of the renewable energy industry. Speakers included President George W. Bush, Agriculture Secretary Mike Johanns and Energy Secretary Samuel W. Bodman, among many others.

America is at a "confluence of national security concerns and environmental concerns that have come together, probably unlike any other time in our history," President Bush said, necessitating development of new energy sources not only for economic reasons, but for national security as well. "We're too dependent on oil," he stressed.

Alluding to the rapid drop in gasoline prices this fall, the President said, "I welcome the lower gasoline prices. My worry is that a low price of gasoline will make us complacent about our future when it comes to energy, because I fully understand that energy is going to help determine whether or not this nation remains the economic leader in the world."

President Bush said one way Washington is helping change the energy picture is by rewarding people for investing in research and development. The fact that the federal research and development tax credit expires every year and has to be annually renewed by Congress is problematic, he said. "It means there's unpredictability in the tax code, and that's not wise if you're trying to encourage people to invest dollars in the long-term," he said, adding that the tax credit should be made a permanent part of the tax code.

U.S. Energy Secretary Samuel Bodman, left, and Agriculture Secretary Mike Johanns announce the awarding of $17 million for biomass energy research. USDA photos by Ken Hammond

Regarding ethanol, Bush said, "I like the idea of promoting a fuel that relies upon our farmers. For those of you who are in the ethanol business, you're on the leading edge of change. It's coming, and government can help." More feedstocks are needed to help boost ethanol production, he said, citing sugar, wood chips and switchgrass.

The President also expressed strong support for federal expenditures on renewable energy research and "new ways to conserve and new ways to protect the environment through new technologies." He referred to hydrogen power as a promising, long-term energy resource. "We're spending $1.2 billion to encourage hydrogen fuel cells. It's coming. It's an interesting industry evolution, to think about your automobiles being powered by hydrogen, and the only emission is water vapor."

The President said that with ongoing research into new battery technologies, he could "envision a day in which light and powerful batteries will become available in the marketplace so that you can drive the first 40 miles on electricity — and your car won't have to look like a golf cart."

President Bush said more feedstocks, in addition to corn, must be developed to offset oil imports. USDA Under Secretary for Rural Development Thomas Dorr (above, left) noted that Rural Development has invested $460 million to develop new energy sources. Next page, Agriculture Secretary Mike Johanns addresses the conference.

USDA funds biomass development

Secretary Johanns used his welcoming speech to announce the awarding of $17 million in USDA and Department of Energy (DOE) assistance to 17 biomass research facilities. "Our challenge is to increase the production and use of alternative energy across this great nation, to maximize its potential so that renewable fuels are an economically viable and sustainable alternative," Johanns said. Both he and Secretary Bodman extolled the potential of ethanol production from cellulose.

> *"Energy is going to help determine whether or not this nation remains the economic leader in the world."*
>
> *— President George W. Bush*

It was also announced that an additional $4 million will be awarded for bio-based fuels research to accelerate the development of alternative fuels. The goal of the research is to lead to breakthroughs that further the goal of replacing 30 percent of transportation fuels with biofuels by 2030.

Secretary Johanns noted that in the past six years, the number of ethanol plants in operation increased from 54 to more than 100 producing 5 billion gallons per year. An additional 44 are under construction, representing a further 3 billion gallons of annual production.

The number of biodiesel plants has multiplied by more than eight times in the past six years, from 10 to 86 plants, with another 78 plants either under construction or being expanded, which will boost biodiesel production to about 2 billion gallons per year.

Johanns countered arguments that without government subsidies, ethanol is not competitive with oil. It costs an average of about $1.10 to produce a gallon of ethanol, he noted, and the average wholesale price of gasoline was more than $2 per gallon in 2006. "Ethanol will continue to be competitive with gasoline as long as oil prices don't drop below $30 per barrel," Johanns said, noting that DOE has forecast oil prices will "even out, in the long run, at more than $50 per barrel."

Energy Secretary Bodman said the secret to success with cellulosic ethanol is engineering the microbes used to break down both plant cell walls and the plants themselves. Department of Energy-sponsored research is making gains in this area, he said.

"Our goal, as the President announced in his State of the Union Address, is to make cellulosic ethanol cost-competitive by 2012," Bodman stressed.

Renewable Energy Century

USDA Chief Economist Keith Collins said, "The potential costs to our society of failing to develop new energy sources, and the potential benefits to agriculture and rural America of developing them, leave only one conclusion: we must work vigorously to make the 21st century the renewable energy century." U.S. energy consumption is likely to rise 30 percent by 2030, adding to the urgency to develop new energy sources, he said.

Biodiesel production is soaring right along with ethanol. Only 5 percent of the nation's soybean oil was used to make biodiesel in 2005, he said. "But only one year later, 2006, we expect biodiesel to consume 13 percent of total soybean oil."

"As more corn moves to more ethanol plants, corn prices will rise, corn acreage is likely to rise and there will be ripple effects on agricultural commodity markets broadly," Collins said. That may mean more acres being pulled out of the Conservation Reserve Program, which could have environmental impacts.

Corn ethanol alone is insufficient to meet much of the demand for motor fuel, Collins noted. "Other sources of renewable and alternative energy must be developed if the U.S. is to make a dent in oil imports," he said.

Patricia Woertz, president of Archer Daniels Midland — and a former vice president of Chevron — told the conference that while ethanol and biodiesel will continue to be important, new products still in the laboratory will supplement them, and possibly supplant them in time. "We do know that the future of energy is not in a single feedstock or product, but it is in diversity of supply," she noted.

Woertz also urged for an end to the "food or fuel" debate. The answer is both, she said. "Put simply, in the big picture, we will not meet the growing demand for food in this world unless we also supply the growing demand for energy."

The world is now using petroleum faster than new sources are developed, Woertz pointed out. Refining capacity is also falling behind. New energy sources, she said, will be needed to fill a gap in global supply that will probably develop by mid-century. "So the question is not whether a sustainable market for biofuels exists," she said, "but rather, 'how big can — or should — that market become?'"

Woertz indicated that ADM is investing heavily in biofuels in the United States and abroad, including biodiesel and research on cellulosic ethanol. ADM's approach to cellulosic ethanol centers on using corn hulls, thus potentially boosting corn ethanol production by 15 percent for the same input, she said.

Petroleum industry and biofuel

Red Cavaney, CEO of the American Petroleum Institute, said that, far from being opponents of ethanol, the U.S. petroleum industry sees it as a valuable source of fuel. "In our view, ethanol is here to stay, and it is a very important part of our nation's gasoline pool," Cavaney stressed. "It is absolutely essential that ethanol and the entire biofuels industry become strong, vital and self-sufficient."

Cavaney expressed his opposition to current ethanol policies, however, saying that the ethanol industry is capable of competing in a free market without subsidies and government incentives. He cautioned that states mandating ethanol use would encourage "boutique fuels," raising costs and leading to price volatility. He advocated allowing the market to determine the way in which alternative fuels are introduced.

Cavaney was followed by Vinod Khosla, the billionaire former co-founder of Sun Microsystems and now an ethanol booster and venture capi-

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Imperfect Directors & CEOs

New book focuses on seven disciplines of business governance excellence

Bruce J. Reynolds, Ag Economist
USDA Rural Development

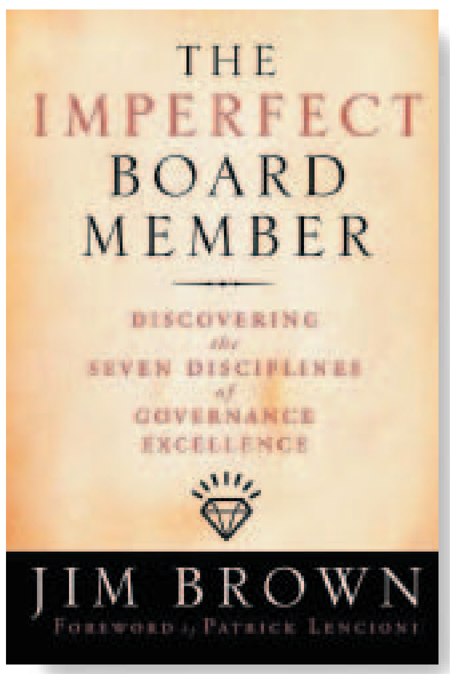
Editor's note: Made a move at the managerial or director level at your co-op that you think would be of interest to other co-op managers and directors? If so, please contact the editor at: dan.campbell@wdc.usda.gov.

There is no shortage of "how-to" books and articles about improving organizations and leadership. This genre typically provides fairly similar sets of recommended best-practices to follow. Of course, learning to recite best-practice disciplines is one thing, but a genuine understanding needed for their effective application is another matter entirely.

A context for visualizing how this or that discipline would work helps build genuine understanding. Short of direct experience applying management disciplines, the closest approximation is to read situational scenarios and case studies. Jim Brown — a founding partner of Strive!, a leadership development firm specializing in governance issues — has written *The Imperfect Board Member: Discovering the Seven Disciplines of Governance Excellence*, which provides an illuminating look at his subject and gives vitality to his set of best-practices for board members and management.

While using a story to demonstrate best-practices, the author also provides summary tables of key points and diagrams to illustrate interactive processes. But if a reader were to skip the scenarios and just read through the lists of summary points and glance at the diagrams, the lack of context would greatly reduce the likelihood that the book will make a real impact.

Furthermore, the situational scenarios contain insights that are not listed in summary tables. A few of these insights are discussed below, particularly some points with special relevance for cooperatives. The complete list of key points and the seven disciplines is not re-stated here, but should prove of interest for co-op leaders and others who read the book.



The *Imperfect CEO* ought to be added to the title, because the CEO is also part of these stories and is involved in much of the book's wisdom about superior governance. Even an excellent board can perform poorly if its interactions with the CEO are strained.

The book provides insightful parallels between the boards of a for-profit corporation and a citizen group that directs the work of a community parks and recreation department. Surprisingly, the lessons learned are drawn from the latter and are applied for the benefit and improvement of the former. In this sequence, the CEO is the source of some of the friction in the corporate board room. As a community board member, he introduces a few wrinkles that have to be ironed-out.

The fact that the CEO gains best-practice insights from his service on the community board offers a lesson in humility. The term "imperfect" in the book's title also suggests the author's implicit belief that a little humility can make a positive contribution to good governance. The need for humility is especially relevant when boards are rightly composed of individuals with diverse backgrounds and have disagreements to work-out.

Another useful insight that Brown demonstrates from the workings of the community board is that directors must refrain from "talking as a customer and expecting to be heard as an owner." In this case the board members are users of their community's parks and recreation services, yet, as directors, they have to stay focused on benefits for the whole community and not specific ones for themselves. Likewise, directors of a cooperative are users of the services and also must adopt a long-term and total membership perspective.

Brown recommends that organizations draw bright lines to demarcate the boundaries of responsibility between principals and agents. The directors are representatives of the principals who are responsible for overall direction, planning and fiduciary duties. The agents are the hired management and staff who are responsible for operations

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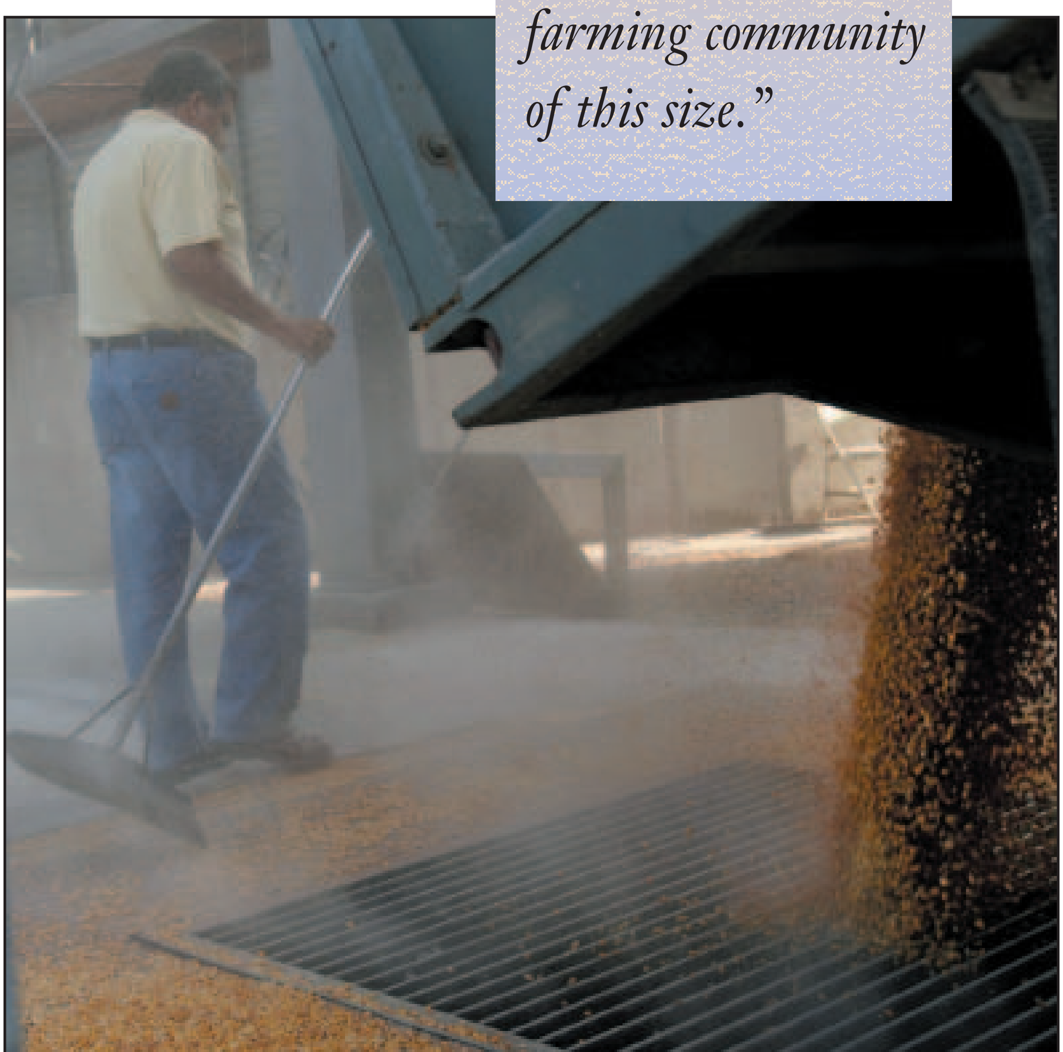
Outside Interests Put Money on Table

Ethanol was built on cash from farmers and their neighbors; But the boom is pushing them aside in favor of deeper pockets

By Minneapolis Star Tribune Staff

Editor's note: this article was the fourth in a five-part series on the ethanol boom in Minnesota and the Midwest that appeared in the Minneapolis Star Tribune *in October. It is reprinted by permission of the Star Tribune, www.startribune.com.*

"No one from a big city can comprehend what an ethanol plant means to a farming community of this size."



Corn flows into Bobby Johnson's grain elevator in Morris, Minn. Johnson made about $500,000 on the sale of ethanol stocks when an Australian company bought out the mostly farmer-owned plant. Photos by David Joles, Minneapolis Star Tribune

Morris, Minn. — Bobby Johnson is still not used to the snide comments and envious glances.

Johnson, who owns the grain elevator in this western Minnesota city, dates the resentment to a Nov. 14, 2005, meeting at the Old No. 1 Bar & Grill. There, amid impassioned speeches and accusations of selling out, Johnson and other shareholders voted to sell the city's ethanol plant to an Australian company.

The sale generated windfalls, some in excess of $2 million, for some investors. Johnson, 54, made half-a-million dollars — enough to pay off four decades of debt. But it also turned some farmers against one another, creating division in a community once united behind the ideal of a locally owned ethanol plant.

"You couldn't pry their farms away from them, but they sold this one [ethanol plant] real quick," said Gerald Rust, a Glenwood farmer and former chairman of the plant's board who voted against the sale.

Midwest farmers may have built the U.S. ethanol industry, but two decades later they are increasingly worried about being elbowed aside as Washington politicians, Detroit automakers and Wall Street investment bankers finally embrace it.

Just one in eight ethanol plants under construction this summer were farmer-owned, compared with eight in 10 just two years ago, according to the Renewable Fuels Association, a trade group. And with foreign and U.S. investors combing the countryside for sites to build or plants to buy, a number of farmers are opting to sell rather than risk competing against the much larger privately owned plants.

This spring, Global Ethanol, an Australian investment group created by a large South African bank and other investors, bought a 60-percent stake in an ethanol plant in Lakota, Iowa, for $100 million. About a third of the plant's nearly 1,300 farmer members voted against the deal.

About 125 miles west, in Sioux Center, Iowa, a farmer-owned ethanol cooperative is weighing a merger offer from a public company that it won't identify. The plant's general manager, Bernie Punt, said he expects the board of directors to vote on the proposal within the next month.

A cooperative effort

To some farmers and politicians, the notion of sending profits from an ethanol plant to far-flung investors undermines the rationale behind the industry — that farmers reap the profits from value-added processing. It's a sensitive issue in Minnesota, where most of the ethanol plants are still owned by farmer groups.

In Winnebago, a southwestern Minnesota city with fewer than 1,500 people, the Corn Plus ethanol plant employs the mayor, three firefighters and two members of the city's rescue and ambulance squad, according to general manager Keith Kor. Each spring, the plant sponsors the after-prom party at the local high school, with refreshments and prizes paid for by ethanol money.

Last year, the farmer-owned plant paid $16 million in profits back to its 750 shareholders.

David O'Brien, owner of the Napa Auto and Farm Parts store in Winnebago, said he makes up to two deliveries a day to the plant. "No one from a big city can comprehend what an ethanol plant means to a farming community of this size," he said.

In June, VeraSun Energy raised more than $400 million through an initial stock offering. Before the ethanol boom, however, plant backers would spend months on the road, meeting in American Legion halls, coffee shops and church basements, where they would try to sell the concept to hundreds of individual investors.

Bobby Johnson, with daughter Christine, says he occasionally gets snide comments and envious glances from others in the town, due to the big pay day he got when the local ethanol plant was sold .

"They were like evangelical meetings," recalled Loris VanHooserof Foley, Minn., who owns shares in the Central MN Ethanol Co-op, a plant in Little Falls, Minn. "Only people who truly believed in the promise of ethanol would commit themselves to that much work."

Lenders usually needed more convincing. Directors of the Corn Plus plant, desperate for a loan in 1993, resorted to sending a batch of strawberry pies to a local bank.

"In the old days, you generally had to sweeten people up before they'd talk to you about ethanol," said Bob Weerts, former chairman of Corn Plus. "Now they're bringing us the pies."

Today, nearly one out of three farmers in Minnesota who grow at least 100 acres of corn owns shares in ethanol plants, according to the Institute for Agriculture and Trade Policy in Minneapolis.

"If a farmer in the Midwest hasn't been given a chance to invest in an ethanol plant by now, then you gotta wonder what rock he was sleeping under," said Greg Lepper, a corn and soybean farmer from Ashland, Ill.

Some, such as Randy Buboltz of Hector, Minn., have bet heavily on the industry. The corn and soybean farmer owns more than 100,000 shares in the Heartland Corn Products ethanol plant in Winthrop, a stake worth about $500,000. He delivers a third of his corn crop each year to the farmer-owned plant, and twice each day he calls up the website of the Chicago Board of Trade to check the price of ethanol futures.

Buboltz said he invested in the Winthrop plant because he saw it as an attractive hedge: if corn prices fell, the local ethanol plant got more profitable and he would receive fatter dividend checks.

"It was all focused on this little dream of adding a small premium to our corn value," he said. "But from Wall Street's perspective, it's got nothing to do with that. And that's what scares me."

Indeed, with demand for ethanol surging, plants such as the ones in Winthrop and Winnebago have become prime takeover targets for large corporations, Silicon Valley-based investors and foreign syndicates looking for quick entry into a new source of energy.

In the 1990s, before ethanol really took off, Corn Plus got one or two buyout inquiries a year. The plant now gets one or two a month. Twice this spring the plant had to scuttle expansion plans after discovering that two out-of-state corporations had already snatched up the sites it wanted.

Rick Lunz, president of the Corn Plus board, said the ethanol plant learned the hard way that being local didn't give it an inside edge over outside competitors. "The ethanol industry is expanding so quickly that the first person that looks at a site and has all the requirements gets to build it," he said. "It's just a different world."

The issue of local control is on Washington's agenda. Minnesota Senator Norm Coleman said federal policymakers are pondering how to tie local ownership to federal ethanol subsidies.

"Who is going to reap the benefit of this ethanol explosion?" Coleman asked. "Is it going to be folks at the local level, is it going to be farmers, is it going to be through co-ops ... or is it going to be Wall Street?"

Pride, then a divide

Built in 1990, the Morris ethanol plant was one of the city's most conspicuous landmarks and rivaled the local branch of the University of Minnesota as a source of pride.

Known locally as DENCO — Diversified Energy Co. — the facility proved so profitable that area store owners said they timed their sales around its twice-annual dividend checks. Those who bought shares in 2000 earned back almost their entire investment in dividends within two years, plant officials say.

State subsidies helped. Like most ethanol plants in Minnesota, DENCO received state payments for every gallon of ethanol it produced — more than $20 million so far. The plant is entitled to receive producer payments through 2009.

Yet the plant's profitability surprised some of its initial investors. At the time of DENCO's initial share offering, local farmers worried whether the plant could survive a calamity, like the 1996 drought that drained profits from a large ethanol plant in nearby Marshall.

Doug Ehlers, president of First Federal Savings Bank in Morris, remembers a grueling information session at the Best Western hotel in Morris. There weren't enough seats, so he spent five hours sitting on the floor while a group of farmers tried to persuade their friends and neighbors to invest.

"At that time, there were some people who thought they'd never sell those shares," Ehlers said.

Last year, Babcock & Brown Environmental Investments offered $8.40 in cash for every DENCO share, a 740-percent return for the company's original investors.

In Morris, some viewed the $50 million buyout as a godsend for a small plant that faced an uncertain future competing against new plants three to four times its size. More than 90 percent of the plant's 363 shareholders voted in favor of the transaction.

Yet some farmers viewed the sale as an act of betrayal — akin to selling a local baseball team. They resented that a handful of large shareholders stood to walk away with million-dollar windfalls, while future profits would flow to a foreign company.

When shareholders arrived at the Old No. 1 that November night to vote, each received a booklet describing the offer and the amount of shares owned by the plant's largest shareholders. Farmers who owned only a few thousand shares could compare their modest payday to those who owned 100,000 shares or more.

The information fueled the perception among some investors that the decision to sell was already made before they stepped into the restaurant that night. "The big boys made up their minds, and there was no stopping them," said Dean Monson, a city councilman in nearby Chokio, Minn., and owner of a trucking company.

Erv Krosch, owner of the Dairy Queen in Morris, said he knew next to nothing about ethanol when he borrowed about half the $25,000 he needed to invest in DENCO in 2000. He learned about the plant from members of DENCO's board, who would often stop in his restaurant at night to discuss strategy over a burger and coffee, he said.

Krosch was among a small minority of investors who voted against the sale. "My biggest concern was that future profits would leave the area," he said. "Small rural areas like this need to retain as much as we possibly can."

Johnson, despite making enough money to pay off four decades worth of debt, resisted the urge to celebrate that night. Instead, he had a few drinks, shook a few hands and went home.

"You could tell by the way people were looking at you that they were envious," he said.

Life after the sale

Today, someone passing through Morris would have no idea that investors here reaped millions in profits nearly a year ago. Flouting one's wealth is frowned upon in this city of 5,200.

"Around here, if you drive a fancy sports car ... there's a good chance that no one will do business with you," Johnson said.

For Johnson, life hasn't changed much since the DENCO sale. He still works in a tiny office about the size of a moving van, scattered with buckets of grain and cigarette butts. He can still drive a nail with one measured blow and lift 100-pound sacks of feed with a single arm. And he still sticks his hand in the corn as it drops from the grain trucks, because he doesn't trust the electronic moisture testers that bigger grain elevators use.

"The only way to know if the grain is good and dry is to touch it, feel it, smell it," he said, as he let the grain pour over his arms like a warm shower.

Yet the resentment that Johnson felt that November night at the Old No. 1 still lingers. It slips out in a passing remark from old friends or acquaintances. "They'll say something like, 'You don't have to worry, Bobby, with all your money,' or 'If I had your money, I'd burn mine," he said. "It's not so much what they say, but the way they say it."

The irony is that Johnson isn't nearly as wealthy as some people in Morris make him out to be. He used nearly all his proceeds from the DENCO sale to pay off business loans, including about $400,000 in debts on three new grain bins he built along the railroad tracks in the center of Morris.

For the first time since he took over

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All cooperatives must use new federal income tax form 1120-C

The Internal Revenue Service (IRS) released a draft version of new Form 1120-C on Oct. 12. This form is the new common federal income tax reporting form for all cooperatives, including farmer cooperatives (which previously filed Form 990-C) and all other subchapter T cooperatives (which previously filed Form 1120). Interested parties were given 30 days to comment on the draft.

The new form must be used by cooperatives for tax years ending on or after Dec. 31, 2006. So, cooperatives on a calendar year tax year will be using Form 1120-C to report their 2006 income.

Cooperatives with total assets of $10 million or more will need to attach Schedule M-3 to their Form 1120-C. Schedule M-3 asks questions about the taxpayer's financial statements and reconciles any differences between book income and reported income for tax purposes.

By the time this magazine is mailed, IRS will likely have released both the final version of Form 1120-C and the Instructions. Cooperatives that have not already done so are encouraged to meet with their tax preparer to discuss Form 1120-C and any related electronic filing requirements so the transition to the new form does not disrupt other operations or lead to avoidable disputes with the IRS. ■

'Heroic' leaders named to Cooperative Hall of Fame

David Chatfield, Jack Gherty, Charles Gill and Jean Jantzen have been selected for induction into the Cooperative Hall of Fame. The four cooperative business leaders will be recognized at the annual Hall of Fame Dinner and Induction Ceremony at Washington's National Press Club on May 2. The Hall of Fame, the cooperative community's highest honor, recognizes those who have made "heroic" contributions to cooperative enterprise.

- Chatfield is the retired president & CEO of California and Nevada Credit Union Leagues. Chatfield advanced the cause of credit unions here and around the globe in various positions over four decades. He is credited with devising the first national political action system for credit unions and with helping to found and lead the Filene Research Institute, the credit union community's think tank.
- Gherty retired last year after 35 years with Land O'Lakes, 16 of them as its president and CEO. During his tenure, Minnesota-based Land O'Lakes was transformed from a regional into a national farmer-owned business, giving producers a powerful presence in the marketplace and a voice in the policy arena. Under Gherty, the co-op's membership expanded from 15 to 39 states and annual sales tripled. In 1987, Gherty spearheaded a precedent-setting joint venture between Land O'Lakes and Cenex that established a new model for cooperative business activity.
- Gill is the retired governor and CEO of the National Rural Utilities Cooperative Finance Corporation (CFC). He helped shape CFC during its formative years and served as its governor from 1979 to 1995. While working at USDA in the late 1960s, he helped create CFC as an alternative source of capital for electric co-ops. He joined the CFC staff in 1972 and was tapped to be its second governor seven years later. Under his leadership, CFC grew seven-fold as a lending cooperative and created a number of institutions that improved the quality of life in rural America.
- Jantzen is a life-long champion of co-op communications and education. She began her career in 1963 as a secretary for a predecessor co-op of CHS Inc., now a $12 billion Minnesota-based food and energy cooperative. A role model for women in cooperatives, she rose through the ranks and was a key player in the 1998 merger between Cenex and Harvest States that created today's CHS. She retired in 1999 as CHS' vice president for public relations. Jantzen was a long-time trustee of the Cooperative Foundation and was instrumental in the growth of the CHS Foundation, which today provides more than $1.3 million a year for cooperative education and other purposes.

Nominations for the Hall of Fame, established in 1974, are screened by two committees of national co-op leaders. The NCBA board makes the final selections. The Hall can be visited on the Internet at: www.heroes.coop. ■

Bike Co-op Goes Flat

Difficulties faced by worker-owned bike co-op offer lessons for others of potential business pitfalls

By Stephen Thompson,
Assistant Editor

In the fitness-oriented town of Eugene, Ore., a different kind of cooperative struggled with many of the problems familiar to modern agricultural, value-added co-ops. In the end, the difficulties inherent in the worker-owned cooperative model forced Burley Design Cooperative, a manufacturer of much-sought-after premium bicycles and bike accessories for 28 years, to sell out to a private investor.

Burley built high-end bicycles, including tandems and recumbent bikes, on which the rider reclines as if in a chair. It originated the child-carrying bicycle trailer and produced a line of outdoor clothing and rain gear. The new owner has announced that the bicycles and clothing will be dropped; only the trailers, Burley's strongest product line, will continue in production.

The products had a reputation both in the United States and overseas for high quality, durability and affordability. The bike co-op competed in a market in which competition is fierce from China and other countries with much lower production costs. Burley child trailers, which can be converted to athletic strollers, retail from about $240 to more than $400. Its tandem bicycles ranged in price from about $1,000 to more than $5,000.

Burley had no problem selling its wares — in fact, its main dilemma was the opposite: it couldn't make enough product to meet demand. Further, as the new millennium began, inefficiencies ate away at its bottom line and it began having trouble meeting its delivery obligations. After more than two profitable decades, the cooperative began losing money in the early 2000s. By 2005, it was losing $1.5 million a year.

Production limitation hurt co-op

Cary Lieberman was the marketing manager for the co-op, and has been retained by the new owner. He says the co-op's inability to expand production was rooted in the cooperative structure itself.

Part of the problem is one with which many co-ops are familiar. When members can't provide enough capital on their own, the only alternative is to borrow. However, says Lieberman, "Raising capital is a nightmare. Banks don't understand the co-op model."

Another part of Burley's struggle was the tension between its tradition as an egalitarian worker cooperative, in which all members originally had equal authority, and the need for employees who specialize in management and have the knowledge, experience and authority to make decisions. Throughout its existence, the co-op's structure evolved as it attempted to be true to its roots and competitive at the same time.

The production problem was complicated by the fact that Burley products, while not cheap, were priced lower than competing products of the same quality. Lieberman names a competitor that sells "virtually identical bikes" for $2,000 more. The easy solution might seem to be to increase prices until demand and supply even out.

But Burley was wary about raising prices: "We don't want to alienate our loyal customer base, and we don't want to hurt our reputation for great quality at reasonable prices," Lieberman told *Rural Cooperatives*.

Reluctance to charge more when turning customers away might seem odd to some, but Burley was not a typical manufacturer. It was founded as a private business in 1969 by Alan Scholz, who owned a bicycle shop in Fargo, N.D., when he started selling bike bags sewn by his girlfriend, Beverly Anderson, to other bike shops. In 1974, Scholz and Anderson moved to the small Oregon town of Cottage Grove, and their product line expanded to include bike shorts, backpacks, rainwear and ski clothing. The sewing was done by a small group of people working in their homes and paid by the piece.

Employees form co-op

In 1978, Scholz and Anderson decided they didn't want to be bosses. They sold their business to their employees, after having cooperative bylaws drawn up by a local attorney, remaining on as co-op members.

In the beginning, all members received the same wages, a practice that was to continue until only a few years ago. Production of trailers began at about the same time. After a difficult period during the recession of 1982 — during which a number of members, including the founders, left the cooperative — business expanded dramatically as the fitness craze took hold of newly affluent baby boomers.

Burley moved to the larger town of Eugene to take advantage of a bigger labor force and better logistics. Eugene is an outdoorsman's delight, with mild weather year-round and easy access to the spectacular Oregon coast, year-round skiing and breathtaking rock-climbing, hiking and mountain-biking venues nearby. "Very few places in the country would compare," says Lieberman.

In the 1980s, it was also a good place to get a bike business off the ground. A Sony manufacturing plant provided good income to a relatively young and athletic population, a good local market for the co-op.

Eugene, a university town, is known for a strong sense of community, which fit well with the public-spirited nature of the co-op and also contributed to the firm's continuing commitment to quality. "If you're going to see the people you sell to on the street, you want to be sure that your products don't disappoint them," says Lieberman.

By December 1985, the cooperative had 15 members. They were paid an hourly wage that varied by the month, as determined by expected profits. The co-op restructured its bylaws and established a regular payroll. All the members were made employees and were paid consistent wages. A portion of the profits were set aside to fund capital improvements and meet other expenses.

While the changes improved the firm's efficiency, other ways of doing business left over from the early days of the co-op remained. All members, regardless of their position, received the same wage. Governing the co-op remained simple in concept: all members were directors. Acquiring new skills and training was left up to individual members.

Business expertise needed

Elliot Gehr, the last president of the co-op, was with Burley for 18 years. "We'd always been amateurs," he says, "But we needed the expertise of business professionals." As the cooperative began a move to expand into the national marketplace, its egalitarian informality became more of a handicap.

Having all members on the board is democratic, but as a cooperative grows, decision-making becomes more cumbersome and conflicts can cause delays. The U.S. market for bicycles is subject to fads and rapidly changing styles and trends, making such a management model a serious liability.

In 1987, founder Alan Scholz, by then no longer a member, proposed a partnership to build tandem bicycles. At the time, the only high-performance tandems available were very expensive. Scholz saw an opportunity in a growing trend of couples engaging in fitness activities together.

In a joint venture with Scholz's company, Advanced Training Products, Burley began manufacturing tandems, further contributing to business growth. Burley and Scholz later ended the joint venture, and the co-op began producing bicycles entirely in-house.

By 1989, membership had grown to 39, and it was clear that things had to change. Management of the firm was still by consensus. The workforce was divided into teams, each with a leader. However, the team leaders were only first among equals; they were not given effective authority over their team members.

Management was becoming increasingly unwieldy, and decision-making

USDA photos and graphic by Stephen Thompson was handicapped by the necessity to get a large number of people to agree on the smallest details. "People would waste time arguing where to put the hot plate," one member told me. "They'd waste $300 worth of time arguing over the color to paint a bike."

Restructuring improves productivity

The co-op appointed a committee to study restructuring. After much debate and controversy, it was decided to elect an eight-member board of directors and to give team leaders the status of managers with the ultimate responsibility for the performance of the people they supervised.

Gehr saw the elected board as a mixed blessing. While it streamlined decision-making, it also made many of the workers feel insulated from running of the co-op. "Some people choose not to participate in our outer democracy (government)," he says. "And now, some chose not to participate here."

The new structure made for much-improved efficiency. Production and sales continued to grow. By 1992, it was clear that top-level management expertise had to come from outside. "We realized we had to import talent," says Gehr. For the first time, a new general manager was brought in from outside as an employee.

Also in 1992, the cooperative found itself caught short, swamped by a wave of unanticipated orders. In response, it hired about 20 seasonal non-member workers. After that, many more workers were hired as non-members. The quick expansion of employment resulted in some problems, including what Gehr says were some mistakes in hiring.

In 2003, membership in the cooperative was closed, with all further hires being employees only. In retrospect, Gehr thinks that was a bad idea. "We got bad advice," he says. "Instead, we should have hired more members." Gehr believes that membership encourages badly needed responsibility and creativity. By the time the co-op converted, only 55 percent of the workers were members.

Differential pay introduced

Another innovation made at the same time showed more promise. For the first time, differential pay was introduced. While pay levels were still lower than average in most areas, paying more for greater expertise or productivity allowed Burley much greater flexibility in hiring and retaining needed talent.

Lieberman says that the shift to differential pay "shook things up." As with any innovation, it had its bad effects as well as good. "Some people lost enthusiasm because they felt it was a betrayal of cooperative principles."

Gehr maintains that other bad advice hampered the co-op's efforts to grow. "The trouble is, most accountants just aren't familiar with the cooperative model," he says. "As a result, we didn't take advantage of opportunities to plow profits back into the business, as we should have."

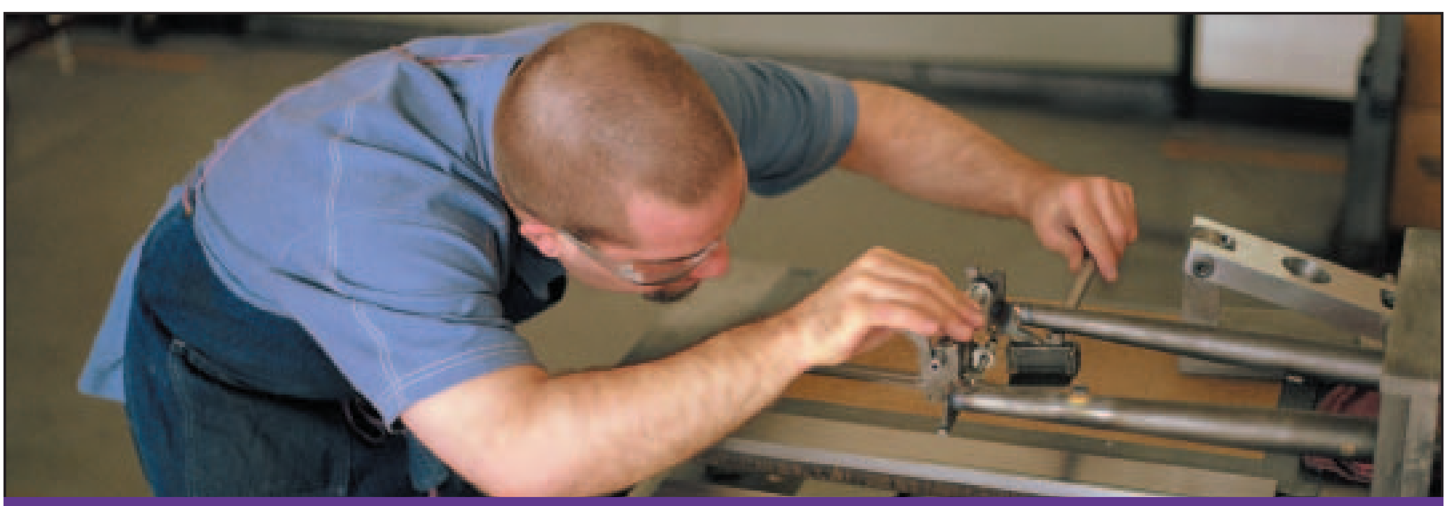
Gehr is especially troubled by the co-op's past ignorance of the use of non-qualified dividends. "If you're growing, qualified dividends are the easy answer. But in a less profitable year, if you give out all of your profits as dividend payments to members, you have to borrow. The use of non-qualified dividends allows you to build up a financial cushion."

Lieberman says that in the past, the cooperative was "property-focused" at the expense of investing in machinery. It moved into its present facility in 1996, a spacious, modern "green" building constructed with the help of the members. But while the facility had ample room, the use of the space available was not as efficient as it could be.

After taking advantage of a state grant for training in manufacturing efficiency, co-op managers and board members realized that the various stages of production were scattered haphazardly. Machines and work stations had remained where they were originally put, and new elements were stuck wherever they would fit.

Using what they had learned, they were able to rationalize the set-up so that each workstation required the same amount of time. The trailer shop showed an 18-percent improvement in productivity, Gehr says, and nobody had to work any harder.

The changes ran into resistance from



Lots of hand labor, such as proper alignment of bike frames (as seen here in the Burley plant), is required in production of high-quality bicycles.

some members, however. Once the machines were put into their new, more efficient positions, workers returning after the weekend found everything moved back to its original place.

Parts standardized

Other measures were put into the works to improve efficiency. The co-op began working to standardize the parts that make up its various bicycle trailer models, which are now the largest selling brand in Germany (they meet stringent German safety codes) and continue to expand sales in North America.

Burley saved not only time and money, but cut back on greenhouse-gas emissions through the use of powder coating for bike finishes. Powder coating is more environmentally friendly than "wet spray" paint, because it doesn't use volatile solvents. It also takes less skill and less time to apply. Wet spraying demands care and skill to apply the coat properly — applying it too wet results in runs and sags; not wet enough results in a dull or "orange-peeled" finish.

Powder coating works by spraying a dry, electrically charged polymer powder onto the metal surface. The bike frame is then placed in a large oven and heated. The powder melts and forms a hard, glossy protective finish. Besides being more efficient to apply, powder also gives a much tougher and more durable coat. The disadvantage of powder coating is the sizeable capital expenditure required for the large oven to heat the painted items.

Other upgrades included automation of various tasks, including wheel building and truing and the production of small parts. According to Gehr, the

"Some people lost enthusiasm because they felt it was a betrayal of cooperative principles."

automation reduced risk in comparison to using outside suppliers: "By producing parts in-house, we're not beholden to others for delivery."

In any case, the bike shop worked, as Gehr put it, like a "cottage industry," with a huge number of different parts for the various models and a great deal of hand work. This doubtless contributed to a decision by the new owner to close down production of all bicycles.

When interviewed last summer (prior to the conversion), Lieberman and Gehr both said that the Burley board and management were well aware of these and other stumbling blocks to greater efficiency. "We're making investments now that we should have made 5 years ago," said Lieberman.

Need for credit heralds change

The need for credit for upgrades led to the cooperative's conversion. The firm's CEO, Char Ellingsworth, had been brought in from outside as the chief financial officer. She was promoted when her predecessor left to use experience he gained at the cooperative to engage in "lean manufacturing" training.

One of Ellingsworth's recommendations was a change in status to a worker-owned corporation. At the time, the move was seen as solution to remaining true to the cooperative spirit. The intent was not to issue stock to raise money, but to make the firm more attractive to lenders.

Cooperative shares were to be converted proportionately to stock shares. Current workers were to be issued common stock, and former workers who still held membership were given preferred stock. There was to be no controlling interest.

The board voted unanimously in favor of the move. When the vote was put to the membership, a significant minority opposed it, seeing it as a betrayal of the cooperative tradition. "There were definitely a lot of unhappy people," says Lieberman. Nevertheless, on June 23, 2006, the co-op voted to convert.

The change apparently came too late to save worker ownership of the firm. By September, Burley had a huge backlog of orders — including more than 3,000 trailer orders — which it was unable to fill because of a lack of cash to pay suppliers. A search for emergency funding resulted in an offer by a local businessman, Michael Coughlin, to purchase the company's assets and liabilities. The purchase went through on Sept. 8.

Coughlin says he wants to keep Burley production in Eugene, unlike other producers in the market that have switched production overseas. However, while 53 jobs were retained, the rest of

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Magnifying the Message

Co-op Month efforts spread the word about benefits of producer- and user-owned businesses

By James Wadsworth
Education & Outreach Program Leader
USDA Rural Development

A high-voltage racing team, harvest festival displays, an on-line auction of co-op crafts and the creation of an Internet co-op tutorial were some of the many ways the nation's co-ops observed National Cooperative Month in October.

"Owned by our Members, Committed to Our Communities" was the theme of this year's event, and co-ops of every size and type drove that message home in numerous ways. Newspaper, radio and magazine ads were probably the most popular method of spreading the word, but there were also classroom visits, press releases, public service announcements and speeches before civic organizations, among many other efforts.

The annual observance is intended to teach people about the cooperative form of business, and to remind members and non-members alike about what cooperatives do and the vital role they play in the life and economy of their communities and the nation.

Co-op Month is a time for cooperatives and co-op-related organizations to stand tall and promote how cooperatives benefit their members, their communities and their employees — and how co-ops work to provide such benefits every day, year in and year out.

Following is a small sampling of the ways co-ops across the country observed Co-op Month:

- Perhaps the crown jewel of Co-op Month activities is the **NCB** (National Cooperative Bank) list of **America's Top 100 Cooperatives**, released each year at the start of Cooperative Month. The co-op distributes an attractive color bulletin that not only includes a fold-out list of the entire Top 100 with details about each co-op, but also a wealth of related information and charts. It provides a concise, revealing look at the nation's various co-op sectors. The co-op bank also issues a press release to get the word out.

  This year's report shows that the Top 100 co-ops generated more than $140 billion in revenues, an increase of nearly 10 percent from the previous year. Ag co-ops remain the largest co-op sector, accounting for $62.2 billion of the total, followed by grocery co-ops at $32.2 billion, energy and electric co-ops at $14.3 billion, finance co-ops at $13 billion, hardware and lumber co-ops at $10.8 billion and all others at $8.4 billion. To view the list, visit: www.ncb.coop.

- A related effort was launched this year during Co-op Month by the **International Co-operative Alliance** when it released the first ever Global 300 Cooperatives in Lyon, France. The list of the Top 300 co-ops in the world shows that Zen-Noh, a Japanese food and beverage co-op, is the world's biggest co-op, with $55.5 billion in annual sales. The Global 300 shows that Switzerland's largest employer is a co-op, as are Europe's largest dairy business, the largest bank in France, New Zealand's largest company

Frontier Farm Credit in Kansas ran this Co-op Month ad (left) in farm publications. Above, a poster that Foremost Farms used to promote a Co-op Month booth at a harvest festival.

and the world's largest marketer of rice. Co-ops in 28 nations comprise the Global 300 list.

The United States has the most cooperatives on the list with 62. Agriculture accounts for about a third of the co-ops on the list (virtually every one of the 28 nations represented have at least one ag co-op on it). Financial institutions (insurance, bank, credit unions and diversified financial organizations) account for about 25 percent of the Global 300. Retail and wholesale co-ops comprise another 25 percent of the list. Other areas represented include energy, health and manufacturing. See the list at: www.global300.coop.

- **The Race for Cooperative Development** in Washington, D.C., sponsored by the **Cooperative Development Foundation**, raised more than $50,000 to support cooperative development efforts around the globe. In addition to sponsoring the race, the Foundation also hosted an on-line auction of cooperative art and craft items, which ran from Oct. 6 through 31. Goods auctioned included photos and prints, quilts, clothing, rugs, jewelry, pottery, carvings, vacations and other household items. Values ranged from $14 to $7,700. The auction proved to be more than a fund-raiser. CDF Executive Director Elizabeth Bailey says it also led to discussions with art and craft co-ops about dealing with demutalization issues and the need for more networking and idea sharing among art and craft co-ops.

- Many cooperatives and co-op related associations ran special feature articles in their member publications and on their websites during Cooperative Month. To cite just a couple of examples: ***Georgia Magazine***, published by the **Georgia Electric Membership Corporation**, the trade association for Georgia's 42 customer-owned electric utilities, ran articles about the impact that rural electric cooperatives have on Georgia's economy; the October issue of ***Washington State Grange News*** contained a five-page Cooperative Month supplement that highlighted many cooperatives in the Northwest and their activities. The newspaper is distributed widely to producers in the Northwest region and to cooperative leaders around the nation.

This quilt was one of dozens of items auctioned over the Internet to raise funds for international co-op development. Next page, one of a series of Co-op Month ads posted for downloading at: www.co-opmonth.coop.

Team "High Voltage" represented the National Rural Electric Cooperative Association (NRECA) at the Cooperative Develop-ment 5K Race in Washington, D.C. NRECA raised about $2,000 for the Cooperative Development Foundation.

- Rural electric cooperatives and associations promote Cooperative Month in a host of creative ways, from ads and **radio spots to magazine articles** and prize drawings. The ***National Rural Electric Cooperative Association*** website includes a Co-op Month banner and links to information about cooperatives, as well as an interview with National Cooperative Business Association President Paul Hazen about the importance of cooperatives.

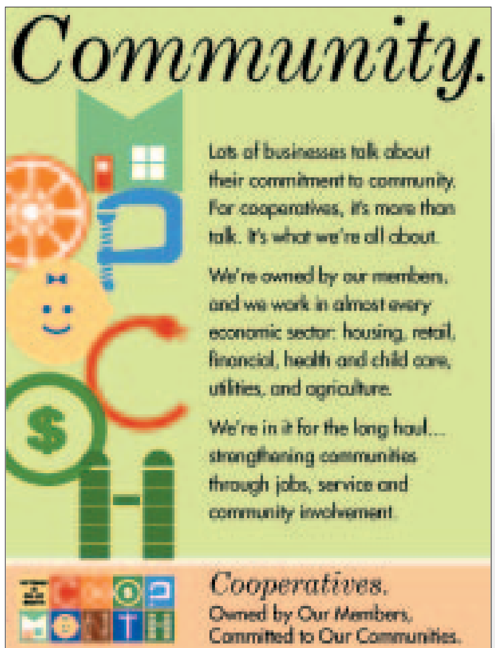
- The greater cooperative family has a long history of supporting cooperative education and funding scholarship opportunities as part of their commitment to their communities. In Kansas, for example, the **Arthur Capper Cooperative Center** and **Kansas State University** Department of Agricultural Economics **awarded 11 cooperative scholarships** to College of Agriculture students for the 2006–2007 academic year.

- **Adams Electric Cooperative**, Gettysburg, Pa., produced a **radio ad** that describes how the co-op's line crews drove bucket trucks and supplies to Mississippi and Louisiana to help restore power to members of electric cooperatives hit by hurricanes Katrina and Rita. Cooperatives helping cooperatives for the ultimate benefit of members was the underlying theme.

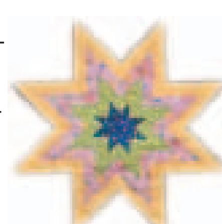
- **Boone REMC**, Lebanon, Ind., a rural utility cooperative that serves more than 10,000 customers in Indiana, held a **Co-op Month drawing** for a $150-credit on a members' electric bill and a $100 gift card to an electronics store. To register for the drawing, customers had to complete a short survey. The cooperative has found that its Co-op Month drawing is a simple way to engage members and to remind them that the co-op works for them. The three survey questions are: Did you know that Boone REMC is a customer-owned cooperative? What is the best way to communicate with you? How can your cooperative improve customer service?

- **CHS/Land O'Lakes Member Services** sent a news release to its state and national associations to use in their newsletters for Cooperative Month. The release describes the availability of free **on-line cooperative educational tutorials** for anyone to use, at: mbrservices.com. Tutorial topics include cooperative principals and practices, financial understanding and commodity risk management.

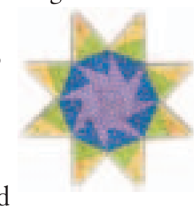
- **The Virginia Council of Farmer Cooperatives**, in association with Friends of Industry of Agriculture, held its annual **Cooperative Month Kick-off Breakfast**, drawing more than 125 leaders from cooperatives and agricultural associations, government officials and representatives from Virginia Tech and Virginia State universities. The keynote speech was by Ed Scott, the vice president of Culpeper Farmers Cooperative, Culpeper, Va. Virginia Governor Tim Kaine signed a **gubernatorial proclamation declaring October as Cooperative Month** in the commonwealth, and three annual cooperative awards were presented to exceptional cooperative members at the breakfast.



- The **Wisconsin Farmers Union** published a **special Co-op Month issue** of it newsletter, which featured ads from co-ops and credit unions around the state. A record 68 co-ops and credit unions were featured this year. A portion of the ad fees collected go to support WFU's educational co-op camp at Kamp Kenwood.



- **Frontier Farm Credit**, Manhattan, Kan., placed an **advertisement** about its business and its status as a cooperative in various regional agriculture publications. It also converted the ad into a **poster** which was widely displayed.



- **Foremost Farms** and a number of other cooperatives in Wisconsin (including Accelerated Genetics, Badgerland Farm Credit, Co-op Country Partners, Oakdale Electric Cooperative, Wisconsin Milk Marketing Board and Westby Co-op Credit Union) jointly promoted Cooperative Month at the **Harvest Days Festival** in Reedsville, Wis. The co-ops used **displays, exhibits and demonstrations** that highlighted the many benefits cooperatives provide to members and their communities. The co-op booth offered door prizes and free food.

Plan now!

The examples reviewed here are just a small sampling of Cooperative Month efforts. While cooperative education and outreach is a full-time endeavor, Cooperative Month is one time when the combined efforts for all co-ops can greatly magnify the message and spread it further.

The National Cooperative Month Committee, made up of representatives from cooperative organizations in Washington, D.C., has created a website — www.co-opmonth.coop — with ready-to-use ads and many other resources co-ops can use to plan for the next Cooperative Month. The **National Cooperative Business Association** is the coordinator of National Cooperative Month.

Remember: the right time to start planning for Cooperative Month 2007 is now! If your co-op does not have one, form a Co-op Month Committee that meets at least monthly for the next six months, and then more frequently as next October nears. Also, check to see if your statewide co-op associations are planning any special efforts you can join. ■

From Concept to Commercialization

New Jersey business incubator to assist producers, co-ops & food processors

By Dan Schofer,
Co-op Development Specialist
USDA Rural Development

New Jersey farmers and food processors are facing increasing pressures from urban sprawl and stricter land-use regulations. These trends are forcing them to rethink historic production practices. Many producers and co-ops need professional guidance to meet changing regulations and to maximize food safety.

Access to new food technologies is essential to preserving New Jersey's farms, increasing farmers' market share and boosting their profitability.

To help meet these needs, USDA Rural Development's New Jersey State Office has partnered with the Rutgers University Food Innovation Center (FIC) and other stakeholders to expand delivery of technical assistance to farmers, cooperatives, food processors and rural communities. This assistance can range from the formation of a co-op steering committee to the implementation of a business plan.

Rutgers sought a one-time Agricultural Innovation Center grant in 2003 from USDA Rural Development (RD) to get the center started. Since its launch, FIC has helped 500 businesses, with its primary focus being on New Jersey's agricultural sector.

The partnership between USDA/RD and FIC has provided grassroots technical assistance to farmers and rural businesses. USDA/RD funding, in combination with local FIC expertise, has opened an avenue for product and business development not previously available in New Jersey.

FIC has assembled a multi-discipline team with various areas of expertise — including business development, product development, food manufacturing and retail marketing/sales — to help strengthen the state's farm and food industry.

An artist's depiction of the new Rutgers Food Innovation Center.

Business incubator

FIC is currently building a 23,000-square-foot business incubator in Bridgeton, N. J. This facility will enable FIC to fully realize the contribution it can make to the New Jersey economy. It will house food-processing and laboratory space, analytical laboratories and distance-learning and teleconferencing equipment. It will also provide administrative office space for staff and clients.

The business incubator will help with the formation of new cooperatives and food companies while also providing a wide array of resources and technologies for existing producer groups and food businesses. It is designed for use by farmers and cooperatives, start-up food companies, existing small- and mid-sized food companies, and retail and food-service establishments. The incubator will provide assistance from concept to commercialization.

"We want to develop an economic model for other states looking to preserve farms and increase the quality of life in rural communities," explains FIC Director Lou Cooperhouse.

Co-op Development Center

In 2004, FIC received a Rural Cooperative Development Grant from USDA Rural Development to establish a program to support the development of cooperatives throughout New Jersey.

continued on page 40

Fruit co-op leader Baum oldest ever to earn University of Chicago Ph.D.

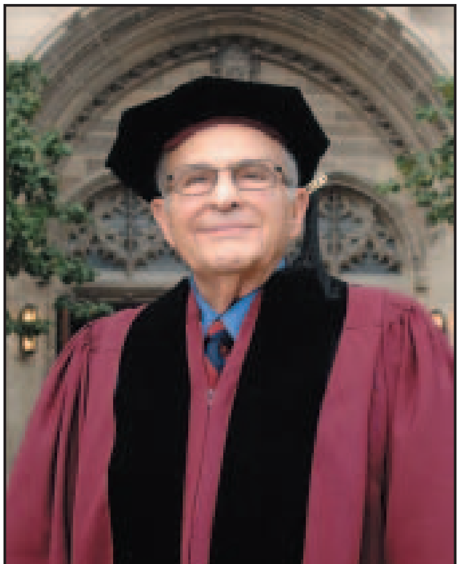
By William Harms,
University of Chicago

Editor's note: "In the Spotlight" recognizes the accomplishments of cooperative leaders and members. To suggest someone to be featured, send e-mail to: dan.campbell@wdc.usda.gov, or call (202) 720-6483.

After a long and fruitful career as leader of one of the nation's leading berry co-ops, 79-year-old Herbert Baum earned a Ph.D. from the University of Chicago in August, making him the oldest person ever to be awarded a doctorate by the university. Baum, who also worked as a federal government ag economist early in his career, clearly knows strawberries from the inside out.

Early in his career, Baum worked at Blue Goose Inc., based in Anaheim, Calif., a nationwide grower and shipper of fruits and vegetables. He helped develop the relatively new strawberry industry there, which Blue Goose was pioneering. Baum joined Naturipe Berry Growers in San Jose, Calif., in 1958, where he became vice president of sales for the strawberry grower-shipper cooperative. He became president of the cooperative, retiring in 1991 after being twice-elected chairman of the California Strawberry Commission.

Baum's ability to understand the free market was particularly crucial to the success of the berry industry, because the federal government does not support the price of strawberries and other fresh fruit by buying excess production. Baum also was a firm backer of marketing and advertising, which increased the nation's demand for strawberries and compensated for the problem of over production.



Herbert Baum, Ph.D., on graduation day. Photo by Lloyd DeGrane, Univ. of Chicago

When he left the University of Chicago in 1951 to become an agricultural economist in Washington, D.C., Baum had a master's degree and was just short of writing his dissertation to earn a doctorate. His dissertation contributes to agricultural economics by examining how to measure the impact of fees charged producers for commodity promotion and research.

The thesis, based on a case study of the strawberry industry in California, developed a model for researchers to understand the long-term value of the fees assessed growers. The model shows how the policies of the state strawberry commission, which supported research into improved varieties, improved production per acre and aided grower profitability.

James Heckman, winner of the Nobel Prize in Economic Sciences in 2000, said of Baum's work, "Herb Baum's Ph. D. thesis is a well-executed study of an industry partially monopolized by government authority. His application of basic price theory to understand the consequences of this policy is in the best tradition of empirical price theory at Chicago. He combines theory with evidence in a convincing way in a serious piece of research on a major agricultural industry."

Baum's work with strawberries began in California in 1953 after working for the federal government upon completing is master's degree. Inspired by former professor and free-market economist Milton Friedman, who went on to receive a Nobel Prize, Baum decided to find work in private industry.

"I went into the produce business because, as a boy growing up in Fort Wayne, Ind., that was the business my family was in," explains Baum.

The strawberry business was in its infancy when Baum went to California. Fresh strawberries at the time were only available from local producers and the season was short. Most strawberries grown in California were frozen and shipped while the fresh ones were consumed in the state. New varieties, improved growing techniques, and better marketing and transportation revolutionized the industry.

By the 1990s, strawberries were grown up and down the coastal valleys of California and shipped around the country nearly year-around. The industry also developed a thriving export market in Japan. Fresh strawberry consumption in the United States grew per capita from 1.6 pounds in 1962 to 5.23 pounds in 2005. ■

Fading Fortune

Investor-owned growth spurt pushes co-ops off Fortune 500

Bruce J. Reynolds & David S. Chesnick
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Editor's note: The authors also wrote a related article, about changes during the past 25 years in the ranks of the nation's top 100 agricultural cooperatives, for the July–August 2006 issue of this publication. It can be accessed on the Internet at: www.rurdev.usda.gov/rbs/pub/openmag.htm.

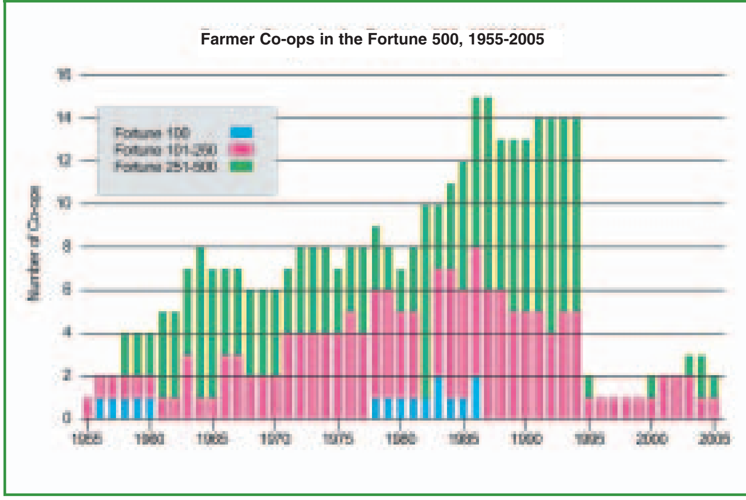
The goal of cooperatives is to serve members by providing favorable prices and other benefits. Revenue growth over time is tied to their service to members and has not been a primary goal. Nevertheless, some of the largest agricultural cooperatives were for many decades comparable in size to firms regarded as "big business" in the United States, as measured by annual revenue. At various times their growth has inspired critics to question whether the limited exemptions from antitrust laws contained in the Capper-Volstead Act are warranted. Yet, U.S. business went on a huge growth spurt after 1994 that only a very few agricultural cooperatives also experienced — and even those to a much more limited extent.

The biggest U.S. firms are often ranked by their annual revenue. During the economic expansion in 1995–2000, many U.S. firms greatly increased in size while others either downsized or didn't significantly change. Some firms regarded as "big" before 1995 hardly warrant that designation any more.

The annual listing of the 500 largest companies by *Fortune* magazine, "the Fortune 500," confers status to businesses that are listed over that fairly wide range. Firms at the top end get most of the publicity. Inclusion on the list can be useful, for example, when a company is introducing itself to a potential foreign customer or business partner and is able to say "we are a Fortune 500 company."

Fortune magazine's web page includes a search capability for firms in the top 500 from 1955 through 2005, and since 2003, even for rankings up to 1,000 (http://money.cnn.com/magazines/fortune/fortune500_archive/full/1955/). A firm's ranking and revenue are reported for every year it was on the list.

Figure 1



Just as most data series are rarely all-inclusive, the Fortune 500 leaves out some cooperatives and private companies that, if included, would push others out of the ranking. In fact, prior to 1995, in addition to those listed in the Fortune 500, a few other agricultural cooperatives in the USDA Cooperative Programs' Top 100 had annual revenue that would have placed them in the Fortune 500. Yet, an all-inclusive ranking since the 1955 would also include a few non-cooperative firms that were, likewise, not reported but were large enough to have been ranked.

Despite missing a few cooperatives and firms, the Fortune 500 data base can be used to show that in the period since 1995, many U.S. firms have expanded in size, as measured by revenue, to a far greater extent than have most of the large cooperatives.

Some co-op history

The Capper-Volstead Act granted agricultural cooperatives limited exemptions from anti-trust laws. Discussions about the large cooperatives in the media have usually been of two kinds. There has been the "gee-whiz" reaction, when news about big co-ops is greeted by surprise that farmers could build such big businesses.

The other is a negative reaction where the inaccurate historical claim is made that when Congress passed the Capper-Volstead Act, it never intended for farmer cooperatives to become large businesses. Yet, for more than 20 years before the passage of the Act in 1922, large agricultural cooperatives had been in operation. (Bruce J. Reynolds, "Many Early Co-ops Had Clout," *Farmer Cooperatives*, USDA, Jan–Feb 1980.)

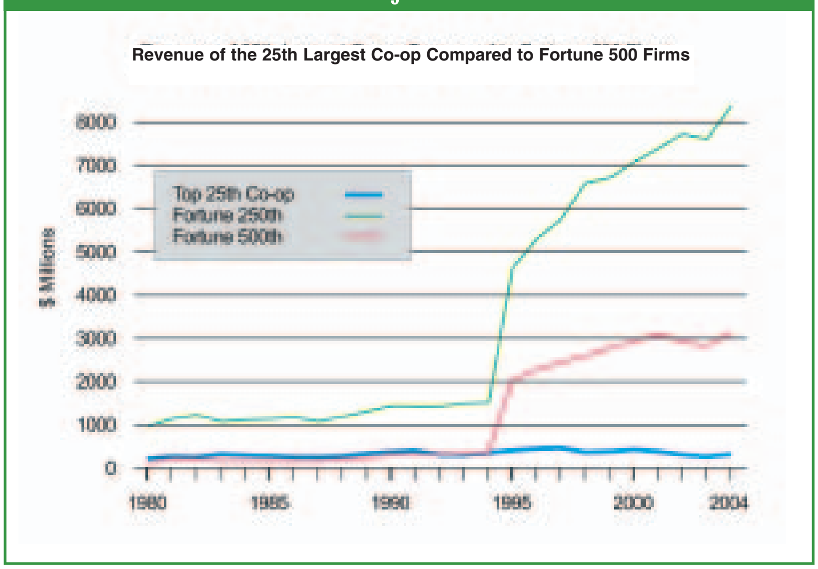
Co-ops in the Fortune 500

When *Fortune* magazine began reporting in 1955 the largest 500 firms by revenue in the United States, it only reported one agricultural cooperative, ranked at 122. Several more cooperatives would have been ranked in the earliest years of the Fortune 500, but information about their business revenues may not have been as widely disseminated in the general business media as it is today.

By the early 1960s, more cooperatives may have reported their annual revenue to the media or may have sent it to Fortune magazine so that they would be included. The Figure 1 stacked bar graph shows for the period 1955–2005 the number of cooperatives in three ranges of the Fortune 500: its top 100, the 101–250, and the 251–500 range. The top of each bar marks the total number of agricultural cooperatives in the Fortune 500 for each year.

At least one agricultural cooperative was ranked among Fortune's largest 100 in 14 out of 51 years. In 1983 and 1986, two cooperatives were in the top 100 of the list. In fact, the 1980s and early 1990s was the heyday for cooperatives in the Fortune 500. Figure 1 shows that by the mid-1980s, there were five or six cooperatives routinely in the top half of the Fortune 500, and between 13 to 15 cooperatives in the overall 500.

Figure 2



Corporate growth soars

The year 1995 was the beginning of a significant economic expansion that is often labeled the "dot-com boom and bust" because many of the firms that failed in the 2001 recession were Internet related. But this designation distorts the reality that in 1995, the average size of U.S. corporations — for revenue generation — began to climb sharply. There has been no reversal of this trend, even when the economy has cooled off.

Throughout the period 1980–1994 there were 10 to as many as 15 cooperatives annually in the Fortune 500, but as shown in Figure 1, they abruptly dropped to two or three from 1995 to 2005. There are actually three agricultural cooperatives that should be annually included from 1995 to the present.

Figure 2 provides another way to view 1995 as a turning point. This graph plots the annual revenue of the 25th ranked cooperative from USDA's Top 100 agricultural cooperatives in comparison to the plots of the 250th and 500th largest firms in the Fortune 500 for 1980–2004. The cooperative in the 25th rank gives an approximate indication of how many cooperatives may have made it in the Fortune 500 in addition to those shown in Figure 1 for the years 1980–1994.

From 1980–1994, the cooperative that ranked 25th on USDA's Top 100 co-op list averaged about $68 million more in revenue than that of the business ranked 500th on the Fortune list. That pattern underwent a major reversal in 1995, with the 500th-ranked company on the Fortune list having revenue of $1.5 billion more than the nation's 25th largest agricultural cooperative. The gap widens from that year on, with only a slight dip in 2002 and 2003.

The firm ranked 250th on the Fortune 500 exceeded that of the 25th largest cooperative on average by less than $1 billion from 1980–1994. This difference would not be generally regarded as establishing the former as an overwhelmingly larger company than the latter. But in 1995, the gap soared to more than $4 billion and rapidly rose to more than $7 billion.

It should be noted that inflation does not distort the comparisons. However, a dollar in 2004 was worth about 50 cents compared to a 1980 dollar (using the GDP deflator).

The same shift occurred between the largest cooperative in the USDA Top 100 Co-ops and the 125th largest firm in the Fortune 500 for the period 1980–2004. During the early 1980s, the cooperative had higher revenue, with 1995 marking a turning point after which the 125th Fortune firm consistently had higher revenue.

The firms ranked 125th, 250th and 500th on the Fortune list provide a closer range for comparisons of revenue with agricultural cooperatives than would firms at higher rankings. But growth of Fortune's No. 1 ranked business is interesting. Annual revenue for the nation's largest business averaged more than $115 billion in 1985–1994. The average soared to more than $195 billion in 1995–2004, and topped $288 billion in 2005. (Note that $115 billion in 1985 would be worth about $185 billion in 2005 dollars.)

Growth of a firm's annual revenue is just one of many indicators of successful business performance. As mentioned above, service to members is more important for cooperatives than revenue growth. In addition, since the early 1990s, many cooperatives have been adjusting their strategies from emphasis on market share to also include building value into their business operations. New strategies may involve alliances with non-cooperatives or ownership of subsidiaries in ancillary industries or in services related to their core operations. These cooperatives are pursuing growth and stability of earnings, with revenue expansion in support of those goals.

The growth surge by many firms after 1994 explains why several cooperatives dropped off the Fortune 500. In view of this massive expansion in non-cooperative firm size, the concerns about Capper-Volstead in regard to excessively big cooperatives have likely dissipated, and if not, are sorely misplaced. ■

Innovative tools for rural co-ops

One way in which professional cooperative business development centers contribute to the nation's rural economy is by creating or adapting business management tools that enable co-ops to improve their "multiple bottom lines" of success.

Through the coast-to-coast network of cooperative development centers known as CooperationWorks!, word of these tools travels. Tales of how they worked (or didn't) are shared. Best practices surface, leadership is supported. Valuable lessons from experience are amplified.

Kentucky: management-measuring tool delivers

One tool that has met with great success locally and is attracting attention from a wider field is an innovative management-audit program created by the **Kentucky Center for Agriculture and Rural Development** (KCARD). The audit begins with a week-long, on-site investigation. Interviews are conducted with employees, managers, directors and others. Legal and financial documents are also reviewed.

KCARD staff then prepare and present a comprehensive report (including a business plan) that identifies the company's strengths and weaknesses. "It's a very intense process," KCARD's Larry Snell says. "It takes about two weeks of the staff's time. We can only do one every month or six weeks, with all the other work we have."

Marshall County Co-op in Benton signed up for the Center's **Business Management and Opportunity Analysis** (BMOA) audit this year. Tim Farrell, the equine, cattle and poultry supply co-op's general manager, praises the program.

"The most important thing was getting an outside viewpoint," Farrell says. He recounts the moment of realization — based on audit interviews — when everyone saw that the board and staff were mistaken in believing that their member-customers thought the co-op's prices were too high.

In fact, information compiled for the audit showed the co-op's prices were lower than mass merchandisers' in a number of key areas. When some co-op members mentioned they were considering a name change, KCARD staff showed them the community interviews, which showed how much name recognition the co-op had — which

"The most important thing was getting an outside viewpoint." The board and staff were mistaken in believing that their member-customers thought the co-op's prices were too high.

Marshal County Co-op's annual horse owners' dinner drew more than 300 in October. The co-op is benefiting from a KCARD business management audit.

came as a pleasant surprise. KCARD staff told them, "Don't give up something other businesses spend thousands of dollars trying to establish."

The audit also helped the co-op with customer differentiation, product display and other issues critical to its success.

"As a result of the experience, they [KCARD staff] presented us with some very specific objectives to accomplish," Farrell recounts. "Some of the information we already knew, but some we didn't. We developed a strategy. Today, our margins are higher than they have ever been, and our customer satisfaction is higher too."

Dakotas: leveraging development dollars

At the **Dakota Enterprise Center** in Mandan, N. D., another innovative approach is being taken in the search for resources to help new cooperatives get started and to strengthen co-ops whose members have limited resources.

When the Center's Pat Downs and Bill Patrie first heard of the New Markets Tax Credit Program, they were intrigued. So the Center, which is co-sponsored by the N.D. Rural Electric and Rural Telephone Cooperatives, hosted some meetings. They also invited their colleagues from South Dakota to attend.

The tax credit program was explained, which permits taxpayers to receive a credit against federal income taxes for making qualified equity investments in designated Community Development Entities (CDEs).

To qualify as a CDE, an organization must have as its primary mission "serving, or providing investment capital for low-income communities or low-income persons." Many rural cooperatives around the country fit the criteria, but until recently most of the applicants have come from the urban centers.

The meetings the Center held generated some interest, so the Center asked the North Dakota Rural Development Finance Corporations (RDFC) to kick in $2,500, and asked South Dakota to match it. Both agreed.

Pat Downs specifically notes the contributions of two people in this effort. One was former Center Director Bill Patrie, the original organizer and current president of the RDFC as well as the outgoing president of CooperationWorks.

In the fall of 2005, Dakotas America LLC (www.dakotasamerica.com) incorporated, and hired a manager to help them apply for a tax credit allocation. "Working with him raised the level of my game," Downs says. The manager's understanding of the regulatory environment and the federal tax credit investment program made a big difference.

Last June, the group received a $50 million tax credit allocation. The plan is to create a fund that will invest the tax credits in cooperative development micro-projects in the Dakotas (or elsewhere) — places that "aren't even on the map," Downs says.

The fund will be built by proceeds from winning the tax-credit allocation, and beneficiaries will include co-ops, corporations, local banks and other players, large and small, that support investment in remote rural areas and the people struggling to build stronger rural businesses and communities.

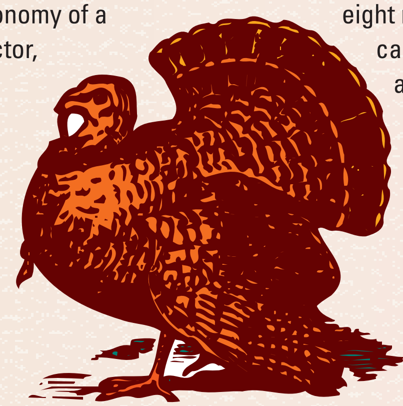
"As far as I know," Downs adds, "there is no history of this type of collaboration. It's fairly unique in the tax arena." ■

Turkey co-op takes off!

Dakota Provisions proudly states on its website that the co-op runs: "the ultimate state-of-the-art processing plant in the nation." The South Dakota Value-Added Agriculture Development Center has worked with Dakota Provisions since its early days, offering an array of technical assistance and educational services. "This project shows how producers entering the value-added chain not only improve their own bottom line, but enhance the economy of a region," Cheri Rath, Center executive director, says.

The original co-op was formed in 2003 by 43 Hutterite colonies of family farmers in the Dakotas, Iowa and Minnesota. They soon came to the conclusion that in order to keep going, they would need to own and operate their own processing facility.

In 2004, they attracted a manager with 31 years experience in the poultry business to lead the co-op in the process of building the 150,000-square-foot, $45-million facility on 114 acres a few miles outside of Huron, S.D.



Early in 2006, Dakota Provisions began manufacturing and producing pre-sliced, ready-to-eat meats, poultry and protein products. The plant employs more than 400 associates and has plans to increase that to 1,000 within five years.

The facility can harvest, de-bone and cook as many as eight million live turkeys a year. Eventually, it will carry a complete line of fully cooked pork, beef and chicken products as well, all geared toward "the food service, co-manufacturing and niche market segments."

Dakota Provisions also engages in research and development, and works in quality assurance labs and kitchens to continually test, develop and monitor products. Visitors to the co-op's website, www.dakotaprovisions.com, can take a virtual tour of the facility. ■

Send items to: dan.campbell@wdc.USDA.gov

National Cooperative Bank shortens name to NCB

National Cooperative Bank has changed its name to NCB and has adopted a new logo as part of a two-year brand research and development effort. "Our simplified name and new corporate identity are a direct result of the valuable feedback from our customers," NCB President and CEO Charles E. Snyder says. "While NCB enjoys a highly loyal customer base, we wanted to more effectively articulate the multi-faceted financial services we can provide."

Since being chartered by Congress in 1978, NCB has answered the financial needs of America's cooperatives and member-owned businesses. Its primary markets include the basic ingredients of vibrant communities: housing, education, healthcare, cultural centers, local businesses and social services. In addition, NCB has a growing community banking network in southwestern Ohio.

NCB has first-hand understanding of the challenges facing cooperatives, having become a co-op in 1981. Today, it has more than 2,600 customer-owners and more than $6.19 billion in assets under management.

NCB, Snyder says, will continue to pioneer the creation and delivery of highly valued, innovative financial services, such as securitizing cooperative assets on the secondary market, using New Market Tax Credits for the growth of charter schools and community health clinics, taking the first Alaska Native Corporation to Wall Street via a private placement, and crafting custom programs for small business members of franchises such as Ace Hardware and Dunkin' Donuts.

"The cooperative community is one of America's best-kept secrets, given its substantial contributions to our economy and society. In the financial arena, at times, the same could be said about NCB," continues Snyder. "By re-branding, the bank sends a clear and more disciplined message to the marketplace, and makes the temptation to refer to NCB as a best-kept secret a thing of the past."

National Beef acquires Vintage Natural Beef

National Beef California, a subsidiary of National Beef Packing Co., has acquired Vintage Foods Limited Partnership, of Los Angeles, Calif. The transaction was structured as an asset purchase and includes the Vintage™ Natural Beef brand. The Vintage brand is marketed as a natural beef that is antibiotic- and hormone-free, with consistent genetics. Vintage Natural Beef only uses cattle that are 20 months or younger, a high percentage of which grade USDA Prime and USDA Choice.

National Beef entered the rapidly growing market for natural beef in April 2004 with Naturewell™ Natural Beef and expanded its product line in April 2006 with the introduction of NatureSource™ Natural Angus Beef.

Kansas City-based National Beef is the nation's fourth largest beef processor. Its majority owner is U.S. Premium Beef, making National Beef the only major beef processing company in the United States with a majority of its ownership held by beef producers. Its sales exceed $4 billion annually and it holds a 14 percent market share.

"The Vintage™ Natural Beef brand is established on the West Coast and will strengthen our natural beef line of products," USPB CEO Steve Hunt says. "Having the Vintage brand will give our sales staff another option for marketing natural beef programs to our retail customers and will enable us to better serve the growing consumer market for naturally raised beef."

National Beef also acquired California-based Brawley Beef LLC in June. Brawley contributed its assets in exchange for an ownership interest in U.S. Premium Beef. National Beef will own and operate the Brawley Beef processing facility in Brawley, Calif., a state-of-the-art beef processing plant constructed in 2001, with capacity to process over 400,000 cattle annually.

Record sales year for PCCA; $28.9 million for members

Fueled by record cotton production in Texas, Oklahoma and Kansas, Plains Cotton Cooperative Association (PCCA) set a new record in fiscal 2006 for gross sales at $1.24 billion, up from $1.03 billion in 2005. The cotton co-op also set records for volume of cotton handled and marketed, warehouse receipts and warehouse net margins. Cash payments of $28.9 million are being made to members, including $13.8 million in cash dividends, $6.6 million in stock retirements and $8.5 million in retirement of per-unit capital retains.

The co-op's overall net margins of $27.8 million virtually matched the $27.9 million recorded the previous year.

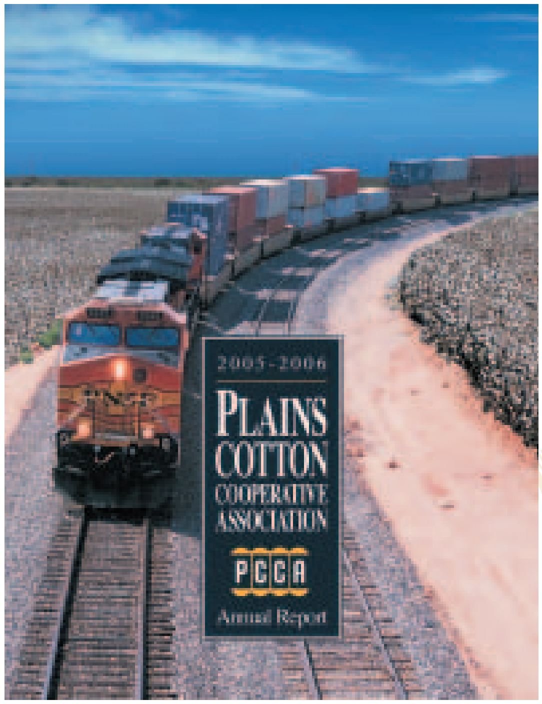
"Early in the season, we recognized the potential for a record crop," said PCCA President and CEO Wally Darneille. "So, we built new warehouses at our facilities in Sweetwater, Texas, and Liberal, Kan., and leased additional storage capacity." The record receipts contributed to the Warehouse Division's combined net margins of $10.9 million, a significant increase from $8.4 million the previous year.

Of 6.6 million bales processed by the co-op's Marketing Division, about 4.5 million were marketed electronically and through PCCA's pools, Darneille said. This division reported net margins of $4.8 million, the second highest in its history.

"PCCA's wholly-owned subsidiary, TELMARK Inc., also set new records for the volume of cotton handled, the number of loans processed on behalf of its customers, and profits that contributed to the Marketing Division's bottom line," Darneille reported. For the second consecutive year, the combined volume of cotton delivered to PCCA's marketing pools set a new record. The pools reported combined net margins of $15.7 million.

Significant highlights for PCCA's pool marketing efforts included increased export sales and improved sales to key domestic mills. Sales to Mexico increased more than 80 percent from the previous year.

PCCA's Textile Division faced numerous challenges during the fiscal year, including a surge of imported denim jeans from Asia. "The overwhelming amount of foreign apparel, combined with one of the worst-ever back-to-school shopping seasons in 2005, kept retail inventories at levels that were not sold off until April of 2006," Darneille explained. "The division ended the year with a net loss of $3.9 million, but actually produced a positive cash flow of almost $1.7 million. Once conditions had improved near the end of the fiscal year, our denim mill was able to get back to a full operating schedule."



Groundbreaking for largest biodiesel plant in Iowa

Construction began in September in Algona, Iowa, on the state's first 60-million-gallon biodiesel plant. Renewable Energy Group Inc. (REG) is partnering with East Fork Biodiesel of Algona in this state-of-the-art biodiesel project, taking a minority interest in the plant while also providing construction services.

The $70-million plant is expected to begin production in about one year. Soybean oil will be used as its primary feedstock. Construction plans also call for the development of a pre-treatment area for other types of feedstock, including animal fats or other oils.

Overall, the project is expected to create about 100 jobs during the construction phase and more than 25 new jobs as the plant opens. Forecasted annual biodiesel sales for East Fork Biodiesel are $144.6 million. Renewable Energy Group, Inc. was formed through the combination of West Central Cooperative's biodiesel business and Renewable Energy Group LLC's biodiesel plant construction business, and has produced and sold biodiesel for more than 10 years through its predecessor companies.

Survey shows support for biofuel incentives

Four in five U.S. adults (80 percent) strongly or somewhat agree that national and state governments are not doing enough to promote production of biofuels, according to a new survey released by the Biotechnology Industry Organization (BIO). The survey, conducted by Harris Interactive, also found that 82 percent of adults say national and state governments should provide financial incentives to biofuels producers to encourage the production and availability of biofuels. More than two out of three adults (69 percent) would use American-made biofuels even if these fuels cost slightly more than conventional gas.

CHS purchases additional US BioEnergy ownership

CHS Inc. has acquired additional ownership in US BioEnergy Corporation, a renewable fuels firm. The federated co-op paid $35 million for the shares, and brings CHS ownership in US BioEnergy to 25.57 percent. Its total investment in the corporation is now $105 million.

US BioEnergy Corporation is a producer and marketer of ethanol and distillers grains. The company currently operates one ethanol plant, which is in the process of expansion, and has three additional ethanol plants under construction. Upon completion of these initiatives, the company will own and operate four plants with combined expected ethanol production capacity of 300 million gallons per year.

CHS Inc. is a diversified energy,

grains and foods company owned by farmers, ranchers and cooperatives from the Great Lakes to the Pacific Northwest and from the Canadian border to Texas, along with thousands of preferred stockholders.

Southwest Cheese opens in N.M.; to have $1.2 billion regional impact

The Southwest Cheese plant in Clovis, N.M., opened Oct. 6, and is expected to have a major impact in the region's economy while solidifying New Mexico as a leading dairy state. Already ranked No. 7 among the states for milk production, New Mexico is one of the fastest growing dairy production areas, as is West Texas.

At full capacity, the plant will take in 140 milk tankers daily, producing 40,000 pounds of cheese every hour and processing 275,000 pounds of whey every day. Southwest Cheese, which employs more than 200 people, is expected to record $340 million in sales this year while having a $1.2-billion economic impact on the regional economy.

The $190 million joint venture is one of the largest investments in the dairy industry worldwide in the past few years. The plant is owned 50 percent by Glanbia PLC, the No. 1 U.S. producer of American-style cheddar cheese, and 50 percent by the Greater Southwest Agency, consisting of Dairy Farmers of America (DFA), Select Milk Producers, Zia and Lonestar.

"Clovis was an ideal choice of location for the plant," says Southwest Cheese President and CEO Maurice Keane. "New Mexico has production advantages that include good climate, ready supply of feed and great neighbors. In addition, being right in the center of a strong milk supply will naturally reduce transport costs for farmers."

DFA CEO Rick Smith said, "It's exciting to see this partnership project come to fruition. Not only has the plant created an important new market for milk in the region, but it has met the goal of maximizing market opportunities for the benefit of all the stakeholders."

The 340,000-square-foot plant produces 40- and 640-pound blocks of Cheddar, Monterey Jack, Colby and Pepper Jack cheeses, along with high-quality whey products.

Southwest Cheese in Clovis, N.M., will produce 40,000 pounds of cheese every hour.
Photo courtesy DFA

Analysis says CWT boosts milk checks by 40 cents

An independent economic analysis of the impact of Cooperatives Working Together (CWT) has found that the dairy self-help program has raised farmers' prices by at least 40 cents per hundredweight since it began operations in 2003. The analysis was performed by Dr. Scott Brown of the University of Missouri, who is often called on by the U.S. Congress to assess agricultural economic issues.

Brown examined the impact of CWT's herd retirements, plus its ongoing export-assistance program, while also taking into consideration other factors affecting the dairy supply in 2003–2006, such as the relative shortage of Canadian dairy replacements. His analysis showed that CWT alone was responsible for a minimum 40-cent average increase in prices from 2004–06, apart from the other factors affecting the market.

The cumulative impact of CWT from the start of 2004 through the first half of 2006 is $1.97 billion in additional producer revenue, according to Brown's evaluation.

So far, the CWT-funded export program has shipped the milk equivalent of approximately 500 million pounds to foreign nations, which Brown's analysis showed as boosting farm prices by nine cents just through the first half of this year. Exports prior to 2006 were minimal and thus had little impact on prices prior to this year.

Starting with July's milk production, CWT member cooperatives and individual farmers have begun contributing 10 cents per hundredweight, an increase of 5 cents per hundredweight from the initial level of commitment. The higher assessment will run through 2007, and ensures that CWT will be able to fund additional herd retirement efforts, as well as its ongoing export assistance program.

DFA, Justice Dept. settle Southern Belle antitrust case

The U.S. Department of Justice (DOJ) and Dairy Farmers of America Inc. (DFA) have resolved an antitrust case involving the co-op's acquisition of Southern Belle Dairy Co. LLC. DFA will divest its interest in Southern Belle, as will DFA's partner, the Allen Family Limited Partnership (AFLP). DOJ said that the divestitures restore the benefits of competition — lower prices and better quality services — to schoolchildren and their families in Kentucky and Tennessee.

DFA and AFLP will sell their interests in Southern Belle to Prairie Farms Dairy Inc. The Antitrust Division has approved Prairie Farms as the buyer.

The Commonwealth of Kentucky joined the Department in its settlement.

"This settlement restores competition for school milk contracts essential to the nutrition programs that serve schoolchildren in 100 school districts in Kentucky and Tennessee," said Thomas O. Barnett, Assistant Attorney General in charge of the Department's Antitrust Division. In April 2003, the DOJ's Antitrust Division and the Commonwealth of Kentucky filed a lawsuit in U.S. District Court in London, Ky., challenging DFA's acquisition of its interest in the Southern Belle.

The DOJ lawsuit charged that DFA's acquisition reduced competition because it gave DFA ownership interests in two dairies — the Southern Belle dairy and the nearby Flav-O-Rich dairy in London — that competed against each other for school-milk contracts. As a result, the acquisition reduced the number of independent bidders for school milk contracts from two to one for 45 school districts in eastern Kentucky, and from three bidders to two for 55 school districts in eastern Kentucky and Tennessee.

The federal district court initially dismissed the case, granting summary judgment for DFA. DOJ successfully appealed the dismissal to the U.S. Court of Appeals for the Sixth Circuit, which reversed the district court and sent the case back for trial. Before trial began, DOJ and DFA reached their agreement.

USDA issues more than $1 billion in electric loans

USDA Rural Development is issuing more than $1 billion in loans to electrical cooperatives nationally to expand and improve electrical services in rural America.

In early September, Agriculture Secretary Mike Johanns announced more than $776 million in loans to electric utilities in 16 states to provide service to more than 10,000 new customers and to make infrastructure improvements, including new generating facilities and lines.

"Our rural communities need reliable electric service in order to support business expansion and broaden economic opportunities," Johanns said. "These loans will open the door to growth in rural America by enabling cooperatives to improve distribution systems and serve additional customers."

One loan, for almost $38 million, is being made to the Coast Electric Power Association of Bay St. Louis, Miss. Funds will be used to restore distribution systems damaged by Hurricane Katrina. Southwest Electric Cooperative of Bolivar, Mo., will use a $9-million loan to build 119 miles of new distribution line and make system improvements for 2,447 new customers. Plumas Sierra Rural Electric Cooperative of Portola, Calif., will receive an $11 million loan to construct a new generation facility which will serve residents of California and Nevada.

Later in September, Johanns announced that 10 electric cooperatives serving rural residents in 15 states will receive an additional $234 million in loans to improve infrastructure, erect new lines and provide service to 6,200 new customers.

"Our electric cooperatives are rural America's lifeline," said Johanns. "USDA has invested close to $23 billion since 2001 to maintain and improve electric service across the nation, part of a firm commitment to improve the quality of life for the communities, businesses and families who live in rural America." A complete list of the loan recipients is available at: http://www.rurdev.usda.gov.

USDA awards $22.6 million in VAPG & minority co-op grants

USDA is awarding $22.6 million in grants to 194 applications in 40 states and two territories. The funds come from its Value-Added Producer Grant (VAPG) and Small Minority Producer Grant (SMPG) programs.

"These grants support farm families in rural America by helping them to market their commodities and increase their financial returns," says Agriculture Secretary Mike Johanns. "I'm pleased to announce that some of these funds will focus on development of alternative fuels from renewable energy sources — part of President Bush's comprehensive

Illinois co-ops partner to form Total Grain Marketing

Total Grain Marketing (TGM) LLC has been formed through a partnership between two Illinois local farmer cooperatives — Effingham-Clay Service Co. in Effingham and Wabash Valley Service Co. in Grayville — with regional cooperative GROWMARK Inc. of Bloomington, Ill. The partnership creates one of the largest cooperative grain operations in Illinois.

TGM includes the former assets of Huisinga Grain Inc. and Willow Hill Grain Inc., which were recently purchased by GROWMARK. Effingham-Clay will integrate its current grain operations with those of TGM. Randy Handel, Effingham-Clay general manager, will manage the day-to-day operations of the combined business.

"Our partnership with Wabash Valley Service Company and GROWMARK provides access to more end-user markets, and strengthens the package of grain services we provide our producers," Handel says.

Wabash Valley will merge the Willow Hill plant food and crop production services into existing Wabash Valley operations.

GROWMARK CEO Bill Davisson says, "This partnership is a result of the GROWMARK Member Partnering program, which benefits local producers, the member cooperative shareholders and the shareholders of GROWMARK." ■

national energy policy."

A total of 41 energy related value-added grants are being awarded at a combined funding level of $4.7 million. Examples include an award of $300,000 to the Midwest Biodiesel Producers LLC of South Dakota for working capital to fund a start-up biodiesel plant. Barton County Ethanol Producers, LLC of Missouri, is receiving $299,900 for working capital to run an ethanol facility in southwest Missouri.

Grading cheese at Wisconsin's Alto Dairy, which is the recipient of a Value-Added Producer Grant from USDA to market its Black Creek Classic Cheddar. Photo courtesy Alto Dairy

A portion of the Value Added Grant funds were designated for applicants requesting less than $25,000. USDA is funding all 61 eligible project applications received in this category.

Examples of value-added grants that are not energy related include a grant of $255,800 to Innovative Growers LLC of Iowa to fund a unique, chemical-free way to process soybeans and market its soy product. Another example is a grant of $107,520 to Lauren Farms Inc. of Mississippi to develop promotional materials and commercial quantities of two ready-to-prepare prawn products. Wisconsin's Alto Dairy Cooperative was awarded $230,000 to promote and market its Black Creek Classic Cheddar.

Under the Small Minority Producer Grant program, $1.5 million is being awarded to cooperatives in seven states and two U.S. territories. Funds are provided for cooperatives or associations of cooperatives whose primary focus is to assist small minority producers and whose membership and/or governing board is composed of at least 75 percent minority members.

In Colorado, a cooperative will conduct a feasibility study relating to the establishment of an organic beef business. A Native American-operated bison cooperative based in South Dakota will receive funds to train representatives from 57 tribes in bison management.

Since 2001 the Bush Administration has committed more than $136 million to value-added agricultural investments.

Value-Added Producer Grants may be used for planning activities, such as feasibility studies or business plans, or to provide working capital for marketing value-added agricultural products and for farm-based renewable energy projects. Eligible applicants are independent producers, farmer and rancher cooperatives, agricultural producer groups and majority-controlled producer-based business ventures.

Value-added products are created when a producer takes an agricultural commodity, like milk or vegetables, and processes or prepares it in a way that increases value to consumers. A complete list of the grants is posted at: www.rurdev.usda.gov.

USDA awards $25.8 million for distance learning, telemedicine

USDA Rural Development has awarded $25.8 million in grants for 103 distance learning and telemedicine (DLT) projects that will provide improved educational and medical services to residents of 38 states. Under Secretary for Rural Development Thomas Dorr made the announcement during a USDA Rural Development-sponsored broadband telecommunications workshop in Charleston, W.Va.

"This program connects communities to medical services and educational opportunities they would not otherwise have," said Dorr. "Our focus is to ensure that all rural Americans have access to state-of-the-art services through our rapidly expanding telecommunications system."

USDA's DLT program was created to encourage, improve, and make affordable the use of telecommunications, computer networks and related technology for rural communities to improve access to educational and/or medical services. Fifty seven of the grants announced will fund projects designed to provide improved medical service and 46 will provide improved educational opportunities. Since 2001, 483 grants totaling over $166 million have been awarded under the program.

A complete list of the successful DLT applicants is available at: http://www.rurdev.usda.gov.

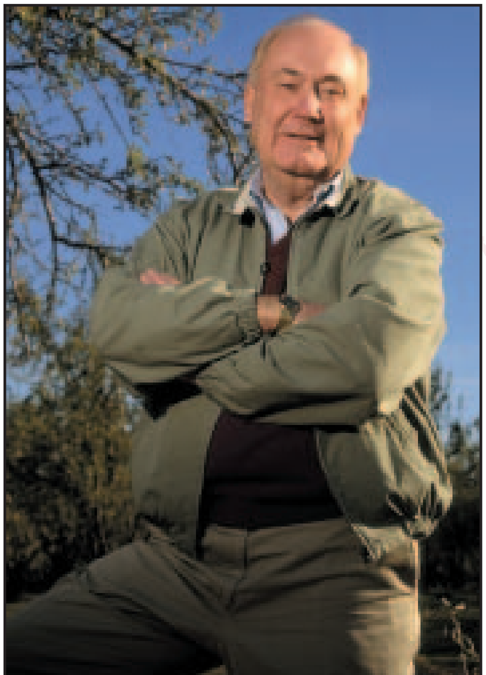
Blue Diamond's Howard Isom ends long co-op board service

Howard Isom, a board member of Blue Diamond almond growers since 1988 and its chairman for 16 years, is retiring from the board this fall. Isom led the cooperative through a period of tremendous change and growth for the almond industry.

"After 18 years, it's time to back out and do something else," Isom told the *Chico Enterprise-Record*. Isom is a recipient of the Farmer Cooperative Director of the Year Award from the National Council of Farmer Cooperatives, which praised him for being a strong believer in cooperative principles and a tireless leader for the cooperative as it improved its efficiency and developed new products and markets.

California's almond crop has grown from about 500 million pounds when Isom was elected to the board, to more than 1 billion pounds today.

In a recent interview in the co-op's member and customer publication, *Almond Facts*, Isom recalled that when he became chairman, the major task was to make the cooperative more efficient



Blue Diamond Growers Chairman Howard Isom in his almond orchard.

than its competition. "The board and management had to take a hard look at the culture and organization of Blue Diamond," he recalled. Other changes were made that led to a stronger position of board independence.

"We began to do a more vigorous job of establishing policy, monitoring policy, succession planning and managing the budgeting process to get our costs in line. For Blue Diamond to achieve its potential, we had to change the culture of the organization." It was a slow and difficult process, Isom recalls, but a successful one.

Swiss Valley Farms purchases Shullsburg Creamery facilities

Swiss Valley Farms Co. has acquired property and facilities from the Shullsburg Creamery in Shullsburg, Wis., to accommodate growing demand for Swiss Valley products. The purchase, effective Sept. 14, includes a dairy-foods plant, a cold-storage warehouse, a dry-storage facility and a waste-water treatment facility, all located on 18 acres on the west side of Shullsburg. Shullsburg Creamery will continue to lease a portion of the facility from Swiss Valley, a Davenport, Iowa-based dairy cooperative owned by 1,100 farmers with annual sales of $425 million and 700 employees.

Tree Top pays $19.4 million to members for '05 crop

Following completion of processing another large apple and pear crop, Tree Top, Selah, Wash., has returned an $11.05-per-ton profit to its grower-owners for their 2005 processing fruit. "This represents the 14th consecutive year this cooperative has returned a profit to its grower-owners," CEO Tom Stokes says.

In September, Tree Top's board approved final payments to members of $10.6 million, payable in October. For the 2005 crop, the co-op will have provided total proceeds for members of $19.4 million on 454,000 tons of apples and pears. Total proceeds equal the amount the fruit would be worth on the open market *plus* the profit Tree Top generates through the sale of juice and other items created by processing that fruit.

"Our industry continues to become more competitive each year," Stokes, says. "To ensure we maintain our premium position in the marketplace, we made significant facilities changes this past year, upgraded many of our production lines, introduced some new products and worked hard to find more efficient ways to run this business. For the second year in a row, higher energy costs, which also impacted our packaging costs, adversely impacting our bottom line."

Tree Top is a grower-owned cooperative with 1,322 members in Washington, Oregon and Idaho.

Outside interests put money on table *continued from page 14*

the grain elevator from his dying father 35 years ago, Johnson is debt-free. He no longer has to worry about passing on a mountain of debts to his 24-year-old daughter, Christine. "I didn't want her to be sitting here 25 or 30 years from now, hoping this debt gets paid off," Johnson said.

But while ethanol freed him from debts, it's also eating away at his business. The ethanol plant in Morris has its own grain bins now, so more and more farmers are delivering straight to the plant and bypassing his elevator. Johnson's deliveries to the ethanol plant have fallen from 3 million bushels a year in 1998 to 800,000 bushels.

From the front window of his office, Johnson can see the semi-trailer trucks speed by on their way to the ethanol plant, kicking up clouds of dust into his parking lot. It bothers Johnson that so many of his longtime customers would show such little loyalty. He wonders out loud whether they remember him unloading corn for them on Thanksgiving Day and Christmas.

"We kept her running 365 days a year. We took care of them," he said. "But some people's got short memories."

The impact could be even more severe if the Australians follow through on their plans for a new 100-million-gallon plant in Alberta, Minn., just 7 miles from the DENCO plant.

Johnson is concerned they will strike a deal with Cargill, which has a large elevator in Alberta, and stop dealing with him entirely. "Then we're done for good," he said.

Johnson figures his best option may be selling his business to the ethanol plant before it's too late. He wouldn't mind working for someone else for a few years and then retiring to Las Hadas, a seaside resort in Manzanillo, Mexico. He has gone there every year since the mid-1980s, when he saw the resort community featured on "Lifestyles of the Rich and Famous."

"It's sunny every day down there, and nobody cares who you are or how much money you've got," he said. "And at least I wouldn't have to eat all this dust."

United Co-op pursuing merger

United Cooperative, Beaver Dam, Wis., and Co-op County Partners, Baraboo, Wis., have begun a merger study. If members approve the merger, it would create one of Wisconsin's largest farmer-owned supply cooperatives, the *Beaver Dam Daily Citizen* reports. United Cooperative is a diversified grain, agronomy, feed, seed and energy cooperative that serves more than 2,800 voting members. Co-op Country Partners' business is complementary and serves about 800 voting members.

With 2005 sales of $121 million and $57 million, respectively, the two co-ops began researching options to work together in grain procurement and marketing. These talks led to the merger study, says United Cooperative Board Chair Howard Bohl, a dairy producer from Beaver Dam. "Through this merger, we can eliminate duplications and inefficiencies, and focus our resources on keeping equipment and technology current, hiring and retaining the best people and keeping the balance sheet strong," the *Daily Citizen* reported.

Co-op Country Partners Board president Robin Craker, a producer from Reedsburg, said numerous efficiencies have already been identified in the merger plan.

Wisconsin co-op merger rejected

The voting members of Country Horizons Cooperative, Reedsville, Wis., have again voted down a plan to merge with Chilton Cooperative, Chilton, Wis., and Progressive Farmers Cooperative, DePere, Wis., according

Bike Co-op Springs a Flat *continued from page 19*

Burley's 109 workers were laid off. Production will concentrate on the co-op's core business: trailers, which account for 80 percent of revenues. Despite setbacks, Burley trailers still command 50 percent of the market.

Production of the fabric covers of the trailers will be contracted out. The other lines have been discontinued. According to Lieberman, when the product line is expanded again, it will be with products "more closely aligned with the trailers."

Members will be paid off through the sale of real estate owned by the co-op that has been deeded to them. Shares of the sale will be assigned based on length of membership.

Growth accelerated problems

In retrospect, Burley's fortunes were shaped by its growth. As a small, worker-run cooperative in a growing market, it did well. Expansion, however, changed its internal dynamic. "At the point where membership broke 40, size became a problem," Lieberman says. The co-op was no longer as close-knit.

It also appears that expanding into different lines, which seemed logical at the time, contributed to an operation that was too diversified to be properly managed or capitalized under the co-op's management culture. Instead of rationalizing the manufacture of existing products, the co-op added new ones, in part because the membership wanted to do so.

"We build the things we'd like to ride," is the way one member put it. Tardiness in bringing in outside management expertise contributed to this problem. An expanding market masked problems that might otherwise have been noticed sooner by management and membership.

Both Lieberman and Gehr agree that, although the change to an elected board was necessary for effective management, it also changed the atmosphere of participation that members had enjoyed. "At some point, for a lot of people, it became just a paycheck," says Lieberman. Gehr says electing the board "gave people permission to go to sleep."

Lieberman says that founding members moved on or died, taking with them the passion that had motivated the firm in its earlier years. Meanwhile, says Gehr, quick expansion resulted in the hiring of people who did not share the "cooperative spirit," or in some cases were just bad workers.

In addition, the fitness and mountain-biking crazes of the 1980s and early 90s have died down as baby boomers get older. That, coupled with increasing pressure from low-wage overseas producers, has resulted in much more difficult markets for Burley's products.

"In a worker-owned co-op, the owners need to be cognizant not only of their jobs, but business management issues as well," says Paul Hazen, president and CEO of the National Cooperative Business Association. "It's a complex business model, because in times of change, the situation can become "personal" for employee-owners, when objective decision-making is needed to grow the business and see to its survival and continued success. The business model is also empowering, because it gives "employees" the same rights and responsibilities as "owners." Hence more pride, better product, fairer wage scale."

"Due diligence must be a constant. A strong management team is critical, a capital reserve is a must, even if it means no dividends to the owners during lean times, open communications of business issues and continual co-op education can prevent complacency," Hazen continues. He also notes that seeking expertise from outside the co-op can be invaluable.

Gehr also believes that the co-op suffered from inherent conservatism and resistance to change, coupled with a sense of being shielded from the problems of private businesses. Another member puts it this way: "People thought, hey, we're Burley. Things will work themselves out."

Lieberman believes that the loss of the cooperative was not inevitable. "Unfortunately, what was needed was just more than members were willing to give," he says. He's philosophical about the loss, however. "Most companies don't stay under the same ownership for 30 years." ■

to a report in the *Manitowoc Herald Times Reporter*. Ballots, counted Sept. 14, failed to produce the two-thirds majority needed to merge, according to Bob Lowe, general manager at Country Horizons Cooperative.

Chilton Cooperative and Progressive Farmers Cooperative each passed the merger proposal in July. As a result, the three organizations' plan of merger has failed, said Lowe. The three cooperatives will continue to work together on a regular basis through a joint venture.

Lindgren new Sunkist president; Bee Sweet Citrus joins co-op

Timothy Lindgren has been elected president and CEO of Sunkist Growers, the nation's oldest and largest citrus marketing cooperative. A veteran of Sunkist and the produce industry, Lindgren served 26 years as president of Fruit Growers Supply Co. (FGS), a cooperative affiliate of Sunkist involved in agricultural supplies, packaging and timberland management, before retiring from the post in 2003.

With 31 years of experience with the Sunkist/FGS system, Lindgren has extensive operational knowledge of all aspects of the Sunkist system and is well known in the U.S. agricultural industry. Lindgren succeeds Jeff Gargiulo, whom he replaced in June, when he became interim president. Lindgren's subsequent selection as CEO followed a nationwide search.

Lindgren recently announced a realignment of Sunkist's organizational structure, providing a more integrated approach to operations and better use of resources. Russ Hanlin was named

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Dairy Dilemma *continued from page 7*

tional) decisions that affect the cooperative organization as a whole — and thereby also members as individuals.

In exchange, the cooperative then provides members with certain services and guarantees. In the Tillamook cooperative, members are guaranteed a market for their milk regardless of how much they produce individually or as a group. The cooperative must find markets for members' milk and milk products (following an old dairy farmer adage of "sell it or smell it").

Tillamook has, in part, done this historically by developing a brand name that promises high-quality cheeses (among other products), with a local identity tied to Tillamook County, and a public corporate demeanor congruent with the environmental consciousness of the Oregon citizenry.

Tillamook, like all cooperatives, has both individual and collective benefits. A farmer who receives a higher price for his/her product when delivered to a cooperative is receiving an individual benefit, due to the cooperative's joint marketing of members' products. The fact that a farmer can produce a particular product, due to being able to reach a market that no one producer could reach individually, is a mutual collective benefit. (Edgar Parnell, *Reinventing Co-operation, 1999*)

When Tillamook sells rBGH-free milk as an organization (regardless of actual differences from rBGH milk), it is marketing collectively in a particular consumer niche that no single producer could create individually. This is a mutual collective benefit, though obtained at some individual sacrifice of free choice.

Competing cultural images and values

Given the many provisions to protect individual freedoms within the laws of the United States (and within the value systems of its culture), any contingencies imposed upon individual rights of property and freedom of choice — even when done in a voluntary and revocable manner — may seem problematic to many. Monsanto, and some of Tillamook's own members, appealed to the more general understandings in the public of the rights of individuals. Questions surfaced such as: "What producer rights will be limited next?" "This is our farming operation [our private property], so we should have the right to determine how we use it."

Less experience in the general public of exchanging certain rights for others, particularly when the exchange is between an individual business and a non-governmental organization — can sometimes give cooperatives a heavy-handed, top-down image. This can occur in spite of their democratic (and grass-roots) character.

Monsanto's website stresses it commitments to boosting agricultural productivity and feeding a hungry world. However, Monsanto must also labor against certain conceptions of being a "big, multinational producer of chemicals." In the Tillamook case, issues of brand-name reputation, consumer demands, links to environmentalism and local rural farm imagery tended to rule the day.

Cooperative interests (and all that is entailed in their markets, image/values and environmental commitments) outweighed Monsanto investment interests, and the imagery/values of "technology being used to benefit a hungry world."

Competing organizations and power

As an organization, Tillamook faces the complex challenge of managing a decision-making structure where its owners and users are the same people. It must make a sufficient economic return such that the business continues through time for member use.

In certain respects, Monsanto's central task as an organization is simpler than Tillamook's. Unlike with Tillamook, it does not process and market its owners' products. Its owners do not produce the ingredients of bovine growth hormone. Rather, owners provide financial resources and, in return, expect the corporation to make a profit. Monsanto's behaviors are bound to its organizational form. Monsanto must defend corporate resources and obtain a competitive return on stockholder investment.

senior vice president for sales and marketing, while Michael Wootton was named senior vice president for corporate relations and administration.

In other Sunkist news, Bee Sweet Citrus is joining Sunkist. Founded in 1987, the Fowler-Calif. packer has a product list that includes navel and Valencia oranges, lemons, grapefruit, mandarins and several exotic specialties, such as minneolas and pummelos. Bee Sweet brings more than six million cartons of citrus annually into the Sunkist system. The fruit will continue to be packed under the familiar Bee Sweet, Sweetheart, Royal Bee and Abeja labels, but now will also wear the Sunkist brand.

Sunkist CEO Timothy Lindgren.

In a key marketing issue, the U.S. International Trade Commission and the U.S. Commerce Department have initiated anti-dumping duty investigations on imports of lemon juice from Argentina and Mexico, pursuant to a petition filed by Sunkist. The co-op charges that the imports are being sold in the United States at unfair prices, below both their own third-country prices and their own cost of production, causing material injury to the domestic U.S. lemon juice industry.

USDA funds 1890s to promote jobs, co-op & business growth

USDA has awarded $1.5 million to 14 1890 land-grant universities. The

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As a large organization with the deep pockets of a multinational firm, Monsanto is able to marshal many resources and act with power in the political economy of agricultural markets (it ranked 336th on the Fortune 500 list of largest corporations in 2006).

This issue has also led to Monsanto previously challenging the state of Maine, Oakhurst Dairies (a family-held dairy processor in Maine), Swiss Valley Farms (a dairy cooperative headquartered in Iowa), and Pure Milk and Ice Cream Company of Waco, Texas.

In the state of Maine and Oakhurst cases, Monsanto challenged certain labeling policies. Maine promotes its products with a "Maine Quality Seal." Dairy processors can use the seal if they do not accept milk produced with artificial growth hormone (and 80 percent of the milk processed comes from producers within the state).

Monsanto objected to the labeling, but Maine refused to modify the policy. Monsanto also sued Oakhurst for labeling issues. Oakhurst had indicated on its milk containers that "Our farmers' pledge: no artificial growth hormones." Monsanto argued that the labeling was misleading. It implied that there were differences in rBGH-produced milk, and that rBGH-free milk was healthier.

The case was settled out of court, with Oakhurst agreeing to indicate on its products that the FDA had determined that there was no difference in the milk products. Essentially, "milk is milk," regardless of whether the milk is obtained from cows treated with rBGH or not.

Tillamook gives no indication on its label that their milk is rBGH-free. James McCullen, CEO of Tillamook, has said "We didn't want this to become a national issue, and we didn't want to be the target of the labeling issue." (Patton, 2005).

The issue remains, as other dairy processors have decided to require producers to go rBGH-free (Darigold Farms, Meadow Gold, Eberhard Dairy, Alepenrose Dairy) Dean Foods, Wal-Mart and Kroger are all seeking to increase sales of rBGH-free milk (Organic Consumers, *Monsanto's Bovine Growth Hormone Once Again Under Fire, 2006*). In 2003, organic dairy products accounted for $1.3 billion in sales.

As of this writing (September 2006), there have been recent headlines that two of the nation's largest privately owned dairy foods companies, Dean Foods and H.P. Hood, are demanding rBGH-free milk from regional dairy cooperative suppliers. The Boston Globe reported that the motivation behind this strategy is to compete for the substantial market gains being made in sales of organic (rBGH-free) milk.

The context of this struggle will likely continue, with Monsanto seeking to maintain or expand sales, gaining a competitive return on its investors' money. Monsanto has not released dollar-volume sales data on Posilac, but did recently report that it sells more than 33 million doses annually. (Rachel Melcer, *Monsanto Takes Over Production of Milk Hormone*) Cooperatives will continue to guarantee a market for their producer-members product. With approximately $1.3 billion in sales of organic dairy products, and with such major retailers as Wal-Mart announcing that it is expanding sales of rBGH-free milk, it is likely other cooperatives will seek a market niche.

A founding logic of the Capper-Volstead Act was to help legally empower individual farmers to act collectively, such that their cooperative action might countervail the power of much larger agribusiness firms. According to John Craig (*Nature of Cooperation, 2003*), cooperatives have been successful to this end. In the Tillamook/Monsanto case, a co-op with gross sales of $260 million was able to mobilize the democratic processes of the cooperative, such that members successfully opposed the contending interests of Monsanto, a multinational firm with sales of $6.3 billion annually.

In an era of joint ventures, strategic alliances, mergers and consolidations, the Tillamook/Monsanto controversy serves as an example of the continuing relevance of agricultural cooperative organization to countervail the power of larger organizations, while simultaneously achieving the voiced-interests of independent farmers. ■

funds will assist in the creation of new businesses, promote the growth of cooperatives and provide new employment opportunities through the promotion of Rural Development programs.

"USDA's partnership with the 1890 Institutions makes it possible for rural entrepreneurs to get the assistance they need in order to compete, both here at home and in the global marketplace," said Deputy Agriculture Secretary Chuck Conner. "These universities have a rich history of helping rural residents in historically underserved areas."

Through a longstanding partnership with USDA Rural Development, the 1890 Land-Grant Institutions have provided technical assistance and opportunities for business building throughout the areas they serve. For example, West Virginia State University provides economic outreach services in 11 rural counties in southern West Virginia. Fort Valley State University in Georgia uses USDA funds to promote economic development, create businesses and expand cooperative development opportunities.

Kentucky State University will provide business development assistance to the communities of Cadiz, Dawson Springs, Eddyville, Elkton, Greenville, Oak Grove and Princeton. A complete listing of the successful applicants is available at: http://www.rurdev.usda.gov.

Pilgrim's Pride bids for Gold Kist

Gold Kist Inc. has rejected as inadequate an unsolicited offer from Pilgrim's Pride Corporation to purchase all of the outstanding shares of Gold Kist common stock for $20 per share in cash. The transaction is valued at about $1 billion, plus the assumption of Gold Kist's debt of $144 million.

Gold Kist Inc., once the nation's largest poultry cooperative before it converted to a stock corporation, said in an Oct. 12 letter from its CEO, John Bekkers, that "Our board unanimously determined that the offer is inadequate and doesn't fully reflect the value of Gold Kist."

Pilgrim's says its offer represents a premium of about 55 percent over Gold Kist's closing stock price of $12.93 on Aug. 18, the day the offer was announced.

If the takeover is successful, Pilgrim's Pride would grow to about the same size as industry leader Tysons Foods, which processes 33 million birds per weak and holds 25 percent of the market. ■

Promise of renewable energy focus of St. Louis conference *continued from page 10*

talist. In contrast to Cavaney's approach, Khosla called for mandates that 70 percent of all new cars meet flex-fuel standards, and for laws that require that 10 percent of all gas stations include pumps that dispense 85-percent ethanol (E-85).

Using gasoline blended with 10-percent ethanol is an insufficient strategy, he said. Instead, he said that E85 could, and should, replace petroleum as fuel for cars and trucks in 25 years. "My dream is $1.99 ethanol at every Wal-Mart in America," he said. Khosla disputed Cavaney's assertion that ethanol yields fewer miles per gallon than gasoline, saying that with the proper technology, ethanol can equal gasoline mileage.

As for subsidies, Khosla decried what he described as government subsidies for petroleum fuels, calling for a "level playing field" in government assistance to the petroleum and alternative fuels industries. He also advocated the replacement of the current 51-cents-per-gallon tax credit for ethanol with a variable one that would decrease as petroleum prices rise.

"It shouldn't take any extra money from the federal government," Kholsa said. "This is an alternative future that can happen on strictly economic grounds. We can have cheaper fuel for Americans to buy if the oil companies let it happen." To help reach that goal, he advocated eliminating tariffs for imports of E-85 fuel (a move that is strongly opposed by most of the ethanol industry).

Cellulosic potential

In a panel discussion on biofuels, Mike Muston, CEO of Broin Associates, which has built and operates many co-op- and LLC-owned ethanol plants, presented a similar approach to ADM's emphasis on corn hulls for cellulosic ethanol. By separating bran and fiber from distiller's grains, he said, Broin calculated that not only is there a gain of as much as 15 percent more ethanol from fermenting processed cellulose, but it could make the remaining distiller's grains much more useful for feeding swine and poultry.

With the addition of corn stover, Muston said, ethanol output could be boosted by 25 percent. Burning the byproducts of both could also sharply reduce the need for expensive natural gas to run plants.

Don Endres, chairman and CEO of ethanol producer VeraSun, joined Woertz in downplaying the food vs. fuel problem. "We've underestimated the capacity of the American farmer to grow corn," he said.

Endres pointed out that every generation of American farmers has doubled corn production, and said that innovations on the horizon could accelerate that trend. Transportation costs for raw materials would be lowered by higher yields, he said, because facilities could get sufficient feedstocks from a smaller area.

Endres discussed corn-germ separation, which he said could raise oil yields by 25 gallons per acre. Combined with new bioengineering efforts to produce high-oil-content corn, he said, the result could be 65 gallons per acre, with no impact on yield.

Like other presenters at the conference, Endres was bullish on biomass, claiming that the United States has up to a billion tons of harvestable biomass, but said that corn ethanol will be the most profitable biofuels venture in the near future.

Craig Rockey, a senior vice president of the Association of American Railroads, offered some practical advice for new biofuels producers. Involve the railroads in your initial planning stage, he urged those planning to build plants. Review those plans with your transportation and infrastructure requirements. Work with railroads to use unit trains, which are by far the most cost-effective way to ship by rail, he urged, and nail down your railcar supply and your rail infrastructure before you begin construction.

Industry overbuild likely

Robert Engel, president of CoBank, had some sobering words for ethanol investors. "It is probable that the industry will become overbuilt," he said. The current high returns will inevitably encourage even more capital investment, which at some point will lead to an industry shakeout, and volatility in prices and profits. The rapid expansion of ethanol production will also have unknown impacts on the markets for corn.

Engel emphasized that ethanol operations will need careful management and investment to deal with these conditions. However, he said that CoBank remains optimistic about ethanol production for the long term.

Vijay Vaitheeswaran, author of *Power to the People: How the Coming Energy Revolution Will Transform an Industry, Change our Lives, and Maybe Even Save the Planet*, and correspondent for the *Economist* magazine, attacked what he said were myths about the energy situation. There is no energy crisis at hand, and no necessity for an all-out "moonshot" government project, as some have called for. "Government shouldn't try to pick winners," he said.

Vaitheeswaran also assailed the idea of energy independence, saying that reducing imports doesn't have much impact on prices because of the fungibility of petroleum and other energy sources. And avoid mandating "silver bullets," such as hydrogen or plug-in hybrids, he said.

Vaitheeswaran pointed out that Brazil's first effort to rely on cars running on 100-percent ethanol resulted in disaster when the ethanol market collapsed. The true costs of such mandates may be far higher than any supposed benefits, he said.

Opportunity of a lifetime

USDA Under Secretary for Rural Development Thomas Dorr closed the conference with a rousing talk about the promise of alternative energy. "Some have argued that this may be, in fact, the greatest opportunity for wealth creation in history. I don't know. That may be right," Dorr said. "But it is certainly the greatest opportunity for investment, economic growth, new jobs and wealth creation in rural America in our lifetimes."

"Since 2001, USDA Rural Development has invested over $482 million in biodiesel, wind, ethanol and aerobic digesters, geothermal and other energy and energy efficiency projects," Dorr noted. "This investment has leveraged over $1.5 billion in additional private investment."

In the same period USDA, as a whole, has committed more than $1.7 billion for renewable energy, biobased products and energy efficiency investments, he noted.

But in the long run, Dorr stressed, it will be private investment that will move the renewable energy industry forward. ■

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FIC provides business development assistance, including feasibility analysis and market development.

Technical assistance with food technology enables businesses to create unique products, improve quality-assurance procedures, develop nutritional labeling and develop packaging solutions that provide high-quality products.

Education is an important part of the cooperative development services that FIC provides. Classes in business basics are regularly conducted in different locations around the state to help prospective enterprises better understand business fundamentals and to develop solid business plans. These classes also help participants better understand how to price their products and to develop sound marketing strategies.

Currently, an on-line resource center, or "one-stop shopping" website for regional cooperatives, is being developed. It can be reached via the FIC website (below).

An on-going technical assistance project involves assisting a farmer-owned LLC in finding alternative markets for its produce. The group has developed a business relationship with a broker to sell tomatoes during the summer. FIC will help these farmers analyze the results from this season's sales and make suggestions to improve marketing/profitability for next year.

Value-added projects

Since the inception of USDA Rural Development's Value-Added Producer Grant (VAPG) program in 2001, more than $730,000 in grants have been awarded to New Jersey applicants. FIC has held a series of workshops to assist farmers and agricultural producers in the application process for VAPG funds.

Cooperatives and producer associations that have received funding from the VAPG program in prior years include:

- Sussex County Cooperative Milk Producers Association, which received a grant for a feasibility analysis and business plan for production of non-traditional cheeses;
- Jersey Fruit Cooperative Association, which used its grant for a market-audit study for the New Jersey peach industry;
- Garden State Ethanol, which used a VAPG for a feasibility study that examined the use carbon-dioxide created as a byproduct of ethanol for flash-freezing New Jersey-grown produce;
- New Jersey Tomato Council, which used a VAPG for an economic-feasibility study for building a value-added processing plant in southern New Jersey;
- The New Jersey Seafood Marketing Group, which is using VAPG funds to conduct customer focus groups, develop retail packaging and develop a brand for New Jersey fresh clams, and is currently test marketing its product in about 20 retail stores. Analysis of the sales and marketing will be presented to the group this fall.
- Circle M Farms, which is using VAPG funds to coordinate the production, advertising, promotion and test marketing of peach cider. The benefits from this project include 10 new retail customers, greater consumer demand and a 300-percent increase in cider sales. Circle M Farms is currently using a second grant to determine the feasibility of a hard-cider product.

"This is a partnership based on trust, respect and a common goal of farmer preservation," says Andy Law, USDA Rural Development state director for New Jersey. "The successes in a wide range of agricultural industries are the dividends of this partnership."

Partners contact information

USDA Rural Development: www.rurdev.usda; Food Innovation Center: www.foodinnovation.rutgers.edu; Rutgers Cooperative Extension: www.rutgers.edu; New Jersey Farm Bureau: www.njfb.org. ■

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and plan implementation.

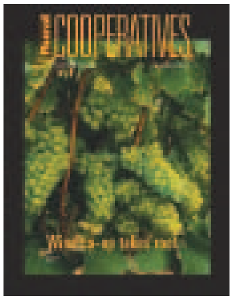
While the manager or CEO participates in the planning process, he or she must not control the agenda. Board members, even when users of the business, must refrain from involvement with operations, which is the CEO's responsibility.

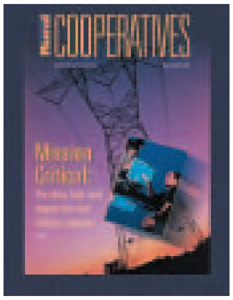
Brown's best-practice of keeping boundaries between the responsibilities of agents and principals has implications for the issue of outside directors. A non-user (outsider) on a cooperative's board may contribute to guarding against a board's slipping into a tendency of "talking as a customer." The weakness of an outside director is in not being in a capacity to talk as an owner.

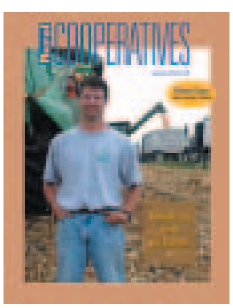
On balance, outside directors may have useful industry experience, but in Brown's conception of governance, operational issues and decisions should not be on the agendas of boards.

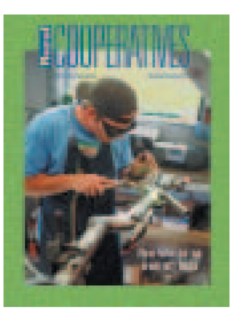
The Imperfect Board Member draws many connections between the tasks of board governance and the challenges of everyday life. Even some of the most experienced directors may find this book quite interesting and useful.

Editor's note: for more information or to contact the author, visit: www.strive.com. ■









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